



**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

Appendix 4E Statement  
for the Full Year Ending  
30 June 2022

**Contents**

- Results for Announcement to the Market
- Media Release
- Appendix 4E Accounts

These documents comprise the preliminary final report given to ASX under listing rule 4.3A

This announcement was authorised for release by the Board of Australian Foundation Investment Company Limited ABN 56 004 147 120

## Results for Announcement to the Market

---

The reporting period is the year ended 30 June 2022 with the prior corresponding period being the year ended 30 June 2021.

This report is based on financial statements that are in the process of being audited.

### Results for Announcement to the Market

- > Net Profit was \$360.6 million, up 53.4% from the prior year.
- > Net Profit attributable to members (excluding minority interests) was \$360.5 million, up 53.6% from the prior year.
- > Revenue from operating activities was \$393.4 million, up 49.7% from the prior year.
- > The Management Expense Ratio (“MER”) calculated as the net expenses of managing the Company as a percentage of the average value of its investments including cash over the year, was 0.16% for the year (2021: 0.14%).
- > Net tangible assets per share as at 30 June 2022, before allowing for the final dividend, were \$6.63 per share before allowing for the provision for deferred tax on unrealised gains in the investment portfolio (2021: \$7.45).
- > A fully-franked final dividend of 14 cents per share, the same as last year’s final dividend, will be paid on 30 August 2022 to shareholders on the register on 11 August 2022. The shares are expected to trade ex-dividend on 10 August 2022. There is no conduit foreign income component of the dividend.
- > NZ 3.5 cents of the final dividend carries a New Zealand imputation credit.
- > The Board has elected to source 10 cents per share of the final dividend from capital gains, on which the Group has paid or will pay tax. The amount of this pre-tax attributable gain, known as an “LIC capital gain”, equals 14.29 cents per share. This enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.
- > The interim dividend of 10 cents per share was paid to shareholders on 25 February 2022.
- > The total dividend for the financial year is therefore 24 cents per share, fully-franked. Total dividends last year were also 24 cents.
- > A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for both will be set at a **5.0%** discount to the Volume Weighted Average Price of the Company’s shares traded on the ASX and Cboe automated trading systems over the five trading days after the shares trade ex-dividend. Notices of participation in the DRP and the DSSP need to be received by the share registry by 5pm (AEST) on 12 August 2022. All shares issued under the DRP and DSSP will rank equally with existing shares.
- > The Company will be providing a briefing on these results via a webcast for shareholders on Tuesday 26 July 2022 at 3.30pm (AEST). Details are on the website [afi.com.au](http://afi.com.au).
- > The 2022 AGM will be held at 10.00am on Tuesday 4 October. Further details on how to participate will be sent to shareholders.

# Long term performance remains sound despite recent dislocation in markets, final dividend maintained

## Full-Year Report to 30 June 2022

AFIC's investment focus is on a diversified portfolio of Australian equities, seeking to provide attractive income and capital growth to shareholders over the medium to long term. This is achieved at a low cost, with lower volatility than the market, and with low portfolio turnover which produces tax-effective outcomes for shareholders. AFIC's management expense ratio is 0.16% with no performance fees.

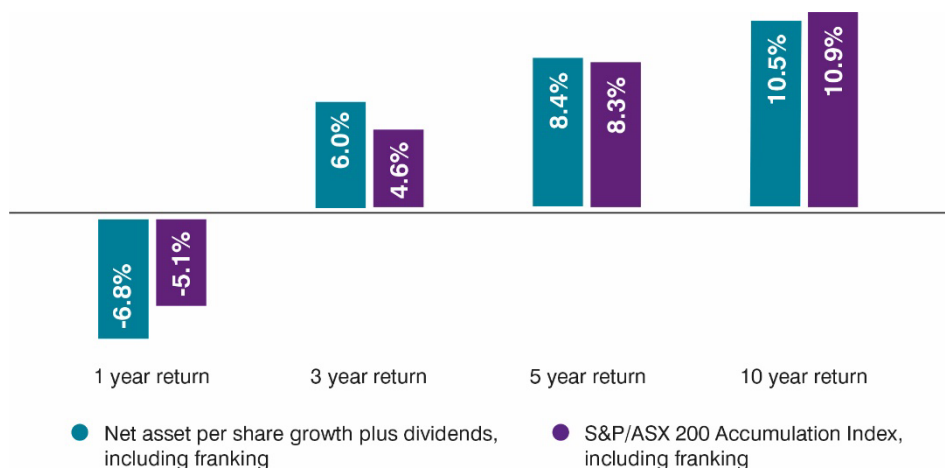
The Full Year Profit was \$360.6 million, up from \$235.1 million in the previous corresponding period. The profit to 30 June 2022 includes a dividend of \$74.9 million (which was non-cash but carries franking credits with it) resulting from the BHP Petroleum/Woodside merger. Last year's figure included a demerger dividend of \$36.5 million resulting from the Endeavour Group demerger from Woolworths. Excluding both one-offs, the Full-Year Profit for the financial year to 30 June 2022 was \$285.7 million, up from \$198.6 million in the previous corresponding period. The increase in profit for the 2021/22 financial year was driven by higher dividends received from investee companies.

Earnings per share for the financial year, excluding the BHP Petroleum/Woodside merger non-cash dividend, were 23.3 cents per share. The final dividend was maintained at 14 cents per share fully franked bringing total fully franked dividends applicable for the year to 24 cents per share, the same as last year.

Activity in the portfolio was focused primarily on increasing exposure to existing holdings. These purchases were funded through the sale of positions because of takeovers, where companies in our assessment face emerging significant structural industry challenges or because competitive intensity has materially increased.

Short-term portfolio performance was impacted by adjustments in the market resulting from geopolitical events and rising interest rates which produced a fall in many growth companies trading on high valuations. These conditions also produced fluctuations in the more cyclical stocks, where AFIC is generally underweight given its long-term investment focus. Portfolio return for the year was negative 6.8%, including franking. The return for the S&P/ASX 200 Accumulation Index, was negative 5.1%, including franking. Over 10 years, the corresponding figures are 10.5% per annum for AFIC and 10.9% per annum for the Index. AFIC's performance returns are after costs.

### Portfolio return (including the full benefit of franking and after costs) – per annum to 30 June 2022



Figures assume an investor can take full advantage of the franking credits.  
Past performance is not indicative of future performance.

## Market Commentary

---

The Australian share market enjoyed strong positive returns in the first six months of the financial year as interest rates remained low and valuations for many companies were very high. These conditions were eventually overwhelmed in the second half of the financial year as inflation emerged, eventually driving interest rates higher. Geopolitical events further exacerbated market volatility producing a significant divergence of returns across the market.

Overall, the S&P/ASX 200 Accumulation Index (including franking) fell 5.1% over the 12 months to 30 June 2022 as there was a rotation away from quality growth stocks to a focus on short term value. The previously underperforming Utilities sector was up 36.0% over the period and Energy, which responded to rising oil prices resulting from Russia's invasion of the Ukraine, was up 30.1%

The portfolio had a negative return of 6.8% including franking, with the largest drag on performance being the decline in the valuation of many high-quality companies from their previous very high levels. We remain convinced about the prospects for these companies despite the recent decline in share prices. The underweight position in resources, which includes energy stocks also negatively impacted relative performance.

Companies in the portfolio that performed relatively well against the Index through the 12-month period were Amcor, Sydney Airport (now taken over), Transurban Group, Ramsay Health Care, which is currently subject to an expression of interest offer, Macquarie Group and Computershare.

The long-term performance of the portfolio, which is better aligned with the Company's investment timeframes, was 10.5% per annum for the 10 years to 30 June 2022. The Index return over the same period was 10.9% per annum. These figures include the benefit of franking. AFIC's performance numbers are after costs.

## Portfolio Adjustments

---

The majority of purchases during the year focused on increasing weightings to existing holdings including Transurban Group, CSL, Domino's Pizza Enterprises, Coles Group, Goodman Group Carsales.com and Auckland International Airport.

We also initiated positions in JB Hi-Fi, Mirvac Group and a small holding in WiseTech Global. JB Hi-Fi is the largest consumer electronics retailer in Australia and New Zealand. While primarily providing

attractive income to the portfolio we expect the consumer electronics category to continue delivering meaningful growth.

Mirvac Group is a diversified property company with operations across residential, commercial, and industrial markets. Mirvac Group's in-house property development capability is relatively unique to the sector and provides a competitive advantage. The company's growth is largely sourced from product generation and less reliant on acquiring established assets.

During the 12-month period we exited Qube Holdings, APA Group, Lifestyle Communities, Origin Energy, Endeavour Group and Altium. We are observing structural industry challenges for many of these companies or an environment where competitive intensity has materially increased. We consider the growth prospects for all these companies to be increasingly challenged as a result. Additionally, we exited our holding in Milton Corporation and Sydney Airport as a result of takeovers.

The ability to reinvest the cash from these takeovers was important during the year as these funds were deployed elsewhere in the portfolio in companies with good long-term growth opportunities.

## Outlook

---

During the year strengthening demand produced supply chain challenges in many industries, which contributed to a meaningful increase in reported inflation. In endeavouring to achieve price stability, central banks signalled the end of stimulatory policy settings. Equity markets are now facing challenges on multiple fronts, slowing economic growth, inflation and interest rate hikes. As a result, the uncertain environment that produced a fall in equity markets during the financial year is unlikely to be materially different in the short term.

In this environment we are comfortable with the current portfolio settings and can afford to be patient with our capital until attractive opportunities present themselves.

Please direct any enquiries to:

**Mark Freeman**  
Managing Director  
(03) 9225 2102

**Geoff Driver**  
General Manager  
(03) 9225 2102

25 July 2022

## Major Transactions in the Investment Portfolio

---

<b>Acquisitions</b>	<b>Cost (\$'000)</b>
Woodside Energy (merger with BHP Oil and Gas)	74,888
Santos (merger with Oil Search)	72,660
Transurban Group (includes \$35.5 million in entitlement offer @\$13 per share)	65,548
Mirvac Group	54,111
JB Hi-Fi	52,191
CSL (includes \$30.2 million in placement offer @\$273 per share)	50,109
Domino's Pizza Enterprises	46,376
Goodman Group	45,103

<b>Disposals</b>	<b>Proceeds (\$'000)</b>
Sydney Airport*	221,802
Oil Search* (merger with Santos)	72,660
Qube Holdings*	68,985
APA Group*	57,159
Milton Corporation*	50,443
Lifestyle Communities*	36,760

\*Complete disposal from the portfolio.

### New Companies Added to the Portfolio

Santos (merger with Oil Search)  
Mirvac Group  
JB Hi-Fi  
WiseTech Global

## Top 25 Investments at 30 June 2022

Includes investments held in both the investment and trading portfolios.

### Value at Closing Prices at 30 June 2022

		Total Value \$ Million	% of the Portfolio
1	Commonwealth Bank of Australia	714.0	8.8%
2	CSL	638.1	7.9%
3	BHP Group	574.4	7.1%
4	Transurban Group	414.0	5.1%
5	Macquarie Group	363.0	4.5%
6	Wesfarmers	309.0	3.8%
7	National Australia Bank	305.5	3.8%
8	Westpac Banking Corporation	303.1	3.7%
9	Woolworths Group	255.4	3.2%
10	Amcor	209.3	2.6%
11	Mainfreight	206.5	2.6%
12	Rio Tinto	191.2	2.4%
13	Telstra Corporation	187.4	2.3%
14	Australia and New Zealand Banking Group	187.0	2.3%
15	Woodside Energy Group*	184.9	2.3%
16	James Hardie Industries	166.6	2.1%
17	Coles Group	160.7	2.0%
18	Goodman Group	157.6	1.9%
19	Carsales.com	147.6	1.8%
20	ResMed	145.8	1.8%
21	ASX	117.0	1.4%
22	Ramsay Health Care	115.9	1.4%
23	Sonic Healthcare	109.6	1.4%
24	Computershare	99.6	1.2%
25	Brambles	99.4	1.2%
<b>Total</b>		<b>6,362.7</b>	

As percentage of total portfolio value (excludes cash)

**78.7%**

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

## Portfolio Performance to 30 June 2022

Performance Measures to 30 June 2022	1 Year	3 Years % pa	5 Years % pa	10 Years % pa
<b>Portfolio Return – Net Asset Backing Return Including Dividends Reinvested</b>	-8.0%	4.4%	6.6%	8.6%
S&P/ASX 200 Accumulation Index	-6.5%	3.3%	6.8%	9.3%
<b>Portfolio Return – Net Asset Backing Gross Return Including Dividends Reinvested*</b>	-6.8%	6.0%	8.4%	10.5%
S&P/ASX 200 Gross Accumulation Index*	-5.1%	4.6%	8.3%	10.9%

\* 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 expenses, 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  
(AFIC)***  
*Consolidated Annual Financial  
Statements*

---

*30 June 2022*



## FINANCIAL STATEMENTS

### Consolidated Income Statement for the Year Ended 30 June 2022

	<b>Note</b>	<b>2022</b> <b>\$'000</b>	<b>2021</b> <b>\$'000</b>
Dividends and distributions	A3	388,492	257,874
Interest income from deposits	A3	61	116
Other revenue	A3	4,871	4,831
<b>Total revenue</b>		<b>393,424</b>	<b>262,821</b>
Net gains/(losses) on trading portfolio	A3	629	2,472
<b>Income from operating activities</b>		<b>394,053</b>	<b>265,293</b>
Finance costs		(845)	(1,831)
Administration expenses	B1	(19,165)	(15,509)
<b>Profit before income tax expense</b>		<b>374,043</b>	<b>247,953</b>
Income tax expense	B2, E2	(13,486)	(12,858)
<b>Profit for the year</b>		<b>360,557</b>	<b>235,095</b>
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company		360,537	234,651
Minority interest		20	444
		<u>360,557</u>	<u>235,095</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	A5	29.40	19.28

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

## Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2022

	Year to 30 June 2022			Year to 30 June 2021		
	Revenue <sup>1</sup> \$'000	Capital <sup>1</sup> \$'000	Total \$'000	Revenue <sup>1</sup> \$'000	Capital <sup>1</sup> \$'000	Total \$'000
<b>Profit for the year</b>	<b>360,557</b>	<b>-</b>	<b>360,557</b>	<b>235,095</b>	<b>-</b>	<b>235,095</b>
<b>Other Comprehensive Income</b>						
<i>Items that will not be recycled through the Income Statement</i>						
Gains/(losses) for the period	-	(1,008,188)	<b>(1,008,188)</b>	-	1,881,261	<b>1,881,261</b>
Tax on above	-	300,219	<b>300,219</b>	-	(575,865)	<b>(575,865)</b>
<b>Total Other Comprehensive Income</b>	<b>-</b>	<b>(707,969)</b>	<b>(707,969)</b>	<b>-</b>	<b>1,305,396</b>	<b>1,305,396</b>
<b>Total Comprehensive Income</b>	<b>360,557</b>	<b>(707,969)</b>	<b>(347,412)</b>	<b>235,095</b>	<b>1,305,396</b>	<b>1,540,491</b>

<sup>1</sup> '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'.

### Total Comprehensive Income is attributable to :

	Year to 30 June 2022			Year to 30 June 2021		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
Equity holders of Australian Foundation Investment Company Ltd	360,537	(707,969)	(347,432)	234,651	1,305,396	1,540,047
Minority Interests	20	-	20	444	-	444
	<b>360,557</b>	<b>(707,969)</b>	<b>(347,412)</b>	<b>235,095</b>	<b>1,305,396</b>	<b>1,540,491</b>

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

## Consolidated Balance Sheet as at 30 June 2022

	Note	2022 \$'000	2021 \$'000
<b>Current assets</b>			
Cash	D1	144,619	97,122
Receivables		36,598	40,011
Trading portfolio		4,979	4,745
<b>Total current assets</b>		<b>186,196</b>	<b>141,878</b>
<b>Non-current assets</b>			
Investment portfolio	A2	8,082,513	8,973,080
Deferred tax assets		-	59
<b>Total non-current assets</b>		<b>8,082,513</b>	<b>8,973,139</b>
<b>Total assets</b>		<b>8,268,709</b>	<b>9,115,017</b>
<b>Current liabilities</b>			
Payables		28,688	1,020
Borrowings – bank debt		10,000	-
Tax payable		62,567	12,621
Provisions		6,114	5,235
<b>Total current liabilities</b>		<b>107,369</b>	<b>18,876</b>
<b>Non-current liabilities</b>			
Provisions		896	888
Deferred tax liabilities - other		503	-
Deferred tax liabilities – investment portfolio	B2	1,169,452	1,536,231
<b>Total non-current liabilities</b>		<b>1,170,851</b>	<b>1,537,119</b>
<b>Total liabilities</b>		<b>1,278,220</b>	<b>1,555,995</b>
<b>Net Assets</b>		<b>6,990,489</b>	<b>7,559,022</b>
<b>Shareholders' equity</b>			
Share capital	A1, D6	3,070,163	3,007,730
Revaluation reserve	A1, D3	2,556,466	3,394,297
Realised capital gains reserve	A1, D4	510,503	416,071
General reserve	A1	23,637	23,637
Retained profits	A1, D5	828,634	716,221
<b>Parent entity interest</b>		<b>6,989,403</b>	<b>7,557,956</b>
Minority interest		1,086	1,066
<b>Total equity</b>		<b>6,990,489</b>	<b>7,559,022</b>

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

## Consolidated Statement of Changes in Equity for the Year Ended 30 June 2022

Year Ended 30 June 2022	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 year</b>		<b>3,007,730</b>	<b>3,394,297</b>	<b>416,071</b>	<b>23,637</b>	<b>716,221</b>	<b>7,557,956</b>	<b>1,066</b>	<b>7,559,022</b>
Dividends paid to shareholders	A4	-	-	(35,430)	-	(248,124)	<b>(283,554)</b>	-	<b>(283,554)</b>
- Dividend Reinvestment Plan	D6	62,584	-	-	-	-	<b>62,584</b>	-	<b>62,584</b>
Other share capital adjustments		(151)	-	-	-	-	<b>(151)</b>	-	<b>(151)</b>
<b>Total transactions with shareholders</b>		<b>62,433</b>	<b>-</b>	<b>(35,430)</b>	<b>-</b>	<b>(248,124)</b>	<b>(221,121)</b>	<b>-</b>	<b>(221,121)</b>
Profit for the year		-	-	-	-	360,537	<b>360,537</b>	<b>20</b>	<b>360,557</b>
<b>Other Comprehensive Income (net of tax)</b>									
Net losses for the period		-	(707,969)	-	-	-	<b>(707,969)</b>	-	<b>(707,969)</b>
Other Comprehensive Income for the year		-	(707,969)	-	-	-	<b>(707,969)</b>	-	<b>(707,969)</b>
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(129,862)	129,862	-	-	-	-	-
<b>Total equity at the end of the year</b>		<b>3,070,163</b>	<b>2,556,466</b>	<b>510,503</b>	<b>23,637</b>	<b>828,634</b>	<b>6,989,403</b>	<b>1,086</b>	<b>6,990,489</b>

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

## Consolidated Statement of Changes in Equity for the Year Ended 30 June 2022 (continued)

	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>Year Ended 30 June 2021</b>									
<b>Total equity at the beginning of the year</b>		<b>2,947,243</b>	<b>2,166,030</b>	<b>397,712</b>	<b>23,637</b>	<b>705,273</b>	<b>6,239,895</b>	<b>622</b>	<b>6,240,517</b>
Dividends paid to shareholders	A4	-	-	(58,770)	-	(223,703)	(282,473)	-	(282,473)
- Dividend Reinvestment Plan	D6	60,632	-	-	-	-	60,632	-	60,632
Other share capital adjustments		(145)	-	-	-	-	(145)	-	(145)
<b>Total transactions with shareholders</b>		<b>60,487</b>	<b>-</b>	<b>(58,770)</b>	<b>-</b>	<b>(223,703)</b>	<b>(221,986)</b>	<b>-</b>	<b>(221,986)</b>
Profit for the year		-	-	-	-	234,651	234,651	444	235,095
<b>Other Comprehensive Income (net of tax)</b>									
Net gains for the period		-	1,305,396	-	-	-	1,305,396	-	1,305,396
Other Comprehensive Income for the year		-	1,305,396	-	-	-	1,305,396	-	1,305,396
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(77,129)	77,129	-	-	-	-	-
<b>Total equity at the end of the year</b>		<b>3,007,730</b>	<b>3,394,297</b>	<b>416,071</b>	<b>23,637</b>	<b>716,221</b>	<b>7,557,956</b>	<b>1,066</b>	<b>7,559,022</b>

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

## Consolidated Cash Flow Statement for the Year Ended 30 June 2022

		<b>2022</b>	<b>2021</b>
		<b>\$'000</b>	<b>\$'000</b>
	<b>Note</b>	<b>Inflows/ (Outflows)</b>	<b>Inflows/ (Outflow)</b>
<b>Cash flows from operating activities</b>			
Sales from trading portfolio		20,888	14,776
Purchases for trading portfolio		(1,860)	(1,297)
Interest received		61	116
Dividends and distributions received		287,431	196,351
		<b>306,520</b>	<b>209,946</b>
Other receipts		4,962	4,878
Administration expenses		(18,383)	(15,445)
Finance costs paid		(845)	(1,831)
Taxes paid		(14,489)	(18,781)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>E1</b>	<b>277,765</b>	<b>178,767</b>
<b>Cash flows from investing activities</b>			
Sales from investment portfolio		657,117	469,102
Purchases for investment portfolio		(662,366)	(416,321)
Taxes paid on sales from investment portfolio		(13,945)	(23,798)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(19,194)</b>	<b>28,983</b>
<b>Cash flows from financing activities</b>			
Net bank borrowings		10,000	-
Share issue transaction costs		(151)	(145)
Dividends paid		(220,923)	(221,801)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(211,074)</b>	<b>(221,946)</b>
Net increase/(decrease) in cash held		47,497	(14,196)
Cash at the beginning of the year		97,122	111,318
<b>Cash at the end of the year</b>	<b>D1</b>	<b>144,619</b>	<b>97,122</b>

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.*

## Notes to the financial statements

### A. Understanding AFIC's financial performance

#### A1. How AFIC manages its capital

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

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

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

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Share capital	3,070,163	3,007,730
Revaluation reserve	2,556,466	3,394,297
Realised capital gains reserve	510,503	416,071
General reserve	23,637	23,637
Retained profits	828,634	716,221
	<b>6,989,403</b>	<b>7,557,956</b>

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 and an additional small sub-component of international (i.e. non-Australian/New Zealand listed stocks). 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 (all at market value) was:

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Equity instruments (excluding below)	7,492,259	8,502,224
Equity instruments (over which options may be written)	501,059	423,249
Equity instruments (listed on non-Australian/NZ Exchanges)	89,195	47,607
	<b>8,082,513</b>	<b>8,973,080</b>

## 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 2022 and 30 June 2021 were as follows:

	30 June 2022	30 June 2021
<b>Net tangible asset backing per share</b>	<b>\$</b>	<b>\$</b>
<b>Before tax</b>	<b>6.63</b>	<b>7.45</b>
After tax	5.68	6.19

### 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.

### Securities sold and how they are measured

Where securities are sold from the investment portfolio, 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 \$729.0 million (2021: \$511.1 million) of equity securities were sold. The cumulative gain on the sale of securities was \$129.9 million for the period after tax (2021: \$77.1 million). This has been transferred from the revaluation reserve to the realisation reserve ([see Consolidated statement of changes in equity](#)). These sales were accounted for at the date of trade.



### A3. Operating income

The total income received from AFIC's investments in 2022 is set out below.

	2022	2021
	\$'000	\$'000
Dividends and Distributions		
Income from securities held in investment portfolio at 30 June	383,115	251,687
Income from investment securities sold during the year	5,166	5,976
Income from securities held in trading portfolio at 30 June	211	211
Income from trading securities sold during the year	-	-
	<b>388,492</b>	<b>257,874</b>

#### Interest income

Revenue from deposits and cash management trusts	61	116
<b>Other revenue</b>		
Administration fees	4,871	4,831
Other income	-	-
	<b>4,871</b>	<b>4,831</b>

#### 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.

	2022	2021
	\$'000	\$'000
<b>Net gains</b>		
Net realised gains/(losses) from trading portfolio – shares	224	149
- options	1,008	1,724
Unrealised gains/(losses) from trading portfolio - shares	(641)	897
- options	38	(298)
	<b>629</b>	<b>2,472</b>

\$131.6 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2021: \$152.3 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's Investment Portfolio. If all call options were exercised, this would lead to the sale of \$21.4 million worth of securities at an agreed price – the 'exposure' (2021: \$44.5 million). There were no put options in the portfolio at 30 June 2022 (2021 : \$nil).

#### A4. Dividends paid

The dividends paid and payable for the year ended 30 June 2022 are shown below:

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Dividends paid during the year</b>		
Final dividend for the year ended 30 June 2021 of 14 cents fully franked at 30% paid 31 August 2021 (2021: 14 cents fully franked at 30% paid on 1 September 2020).	165,339	164,556
Interim dividend for the year ended 30 June 2022 of 10 cents per share fully franked at 30% paid 25 February 2022 (2021: 10 cents fully franked at 30% paid 23 February 2021)	118,215	117,917
	<b>283,554</b>	<b>282,473</b>
Dividends paid in cash	220,970	221,841
Dividends reinvested in shares	62,584	60,632
	<b>283,554</b>	<b>282,473</b>
Dividends forgone via DSSP	9,767	8,635
<b>(b) Franking credits</b>		
Opening balance of franking account at 1 July	158,009	174,053
Franking credits on dividends received	138,158	67,295
Tax paid during the year	27,561	41,428
Franking credits paid on ordinary dividends paid	(121,523)	(121,060)
Franking credits deducted on DSSP shares issued	(4,272)	(3,707)
<b>Closing Balance of Franking Account</b>	<b>197,933</b>	<b>158,009</b>
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	69,967	19,610
<b>Adjusted Closing Balance</b>	<b>267,900</b>	<b>177,619</b>
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(73,794)	(73,250)
<b>Net available</b>	<b>194,106</b>	<b>104,369</b>
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	452,914	243,528

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	<b>2022</b> <b>\$'000</b>	<b>2021</b> <b>\$'000</b>
(Figures in A\$ at year-end exchange rate : 2022 : \$NZ1.073:\$A1; 2021 : \$NZ1.074:\$A1)		
Opening balance	13,261	8,470
Imputation credits on dividends received	5,848	4,779
Imputation credits on dividends paid	-	-
Closing balance	<b>19,109</b>	<b>13,249</b>

There will be NZ imputation credit on NZ 3.5 cents of the final dividend attached to the proposed dividend payable on 30 August 2022. This will utilise, on the above exchange rates, \$15.6 million of the above balance.

#### (d) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2022 to be paid on 30 August 2022, but not recognised as a liability at the end of the financial year is: 172,187

(e) Listed Investment Company capital gain account	<b>2022</b> <b>\$'000</b>	<b>2021</b> <b>\$'000</b>
Balance of the Listed Investment Company (LIC) capital gain account at 1 July:	43,793	62,912
Capital gains (incl LIC gains received from dividends)	150,256	39,651
LIC gains paid as part of dividend	(35,430)	(58,770)
Balance at 30 June	158,619	43,793
This equates to an attributable gain of:	226,599	62,562

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. \$175.7 million attributable gain is attached to the final dividend to be paid on 30 August 2022.

## A5. Earnings per share

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

	<b>2022</b>	<b>2021</b>
Basic Earnings per share	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator	1,226,476,015	1,217,056,577
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	360,537	234,651
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	29.40	19.28

Excluding the Woodside/BHP Petroleum merger dividend for the year ended 30 June 2022, and the Endeavour demerger dividend for the previous corresponding period, the basic earnings per share figure would be 23.3 cents (2021 : 16.3 cents)

## B. Costs, Tax and Risk

### B1. Management Costs

The total management expenses for the period are as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Rental expense relating to non-cancellable leases	(760)	(747)
Employee benefit expenses	(12,819)	(9,304)
Depreciation charge	-	-
Other administration expenses	(5,586)	(5,458)
	<b>(19,165)</b>	<b>(15,509)</b>

#### Employee benefit expenses

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

	<b>Short-term</b>	<b>Other Long Term</b>	<b>Post-employment</b>	<b>Share-based</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2022</b>					
Non-executive Directors	843,182	-	56,818	-	900,000
Executives	3,208,522	-	110,000	531,275	3,849,797
<b>Total</b>	<b>4,051,704</b>	<b>-</b>	<b>166,818</b>	<b>531,275</b>	<b>4,749,797</b>
<b>2021</b>					
Non-executive Directors	749,363	-	54,867	-	804,230
Executives	3,191,746	(120,224)	99,524	526,834	3,697,880
<b>Total</b>	<b>3,941,109</b>	<b>(120,224)</b>	<b>154,391</b>	<b>526,834</b>	<b>4,502,110</b>

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services Ltd ("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*

	2022 \$'000	2021 \$'000
<b>Profit before income tax expense</b>	<b>374,073</b>	<b>247,953</b>
Tax at the Australian tax rate of 30% (2021: 30%)	112,222	74,386
Tax offset for franked dividends received	(96,709)	(47,106)
Demerger dividend non-taxable	-	(10,952)
Sundry items whose tax treatment differs from accounting treatment	(403)	(1,234)
	<b>15,110</b>	<b>15,094</b>
Over provision in prior years	(1,624)	(2,236)
<b>Total tax expense</b>	<b>13,486</b>	<b>12,858</b>

### 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.

	2022 \$'000	2021 \$'000
Deferred tax liabilities on unrealised gains in the investment portfolio	<b>1,169,452</b>	<b>1,536,231</b>
Opening balance at 1 July	1,536,231	973,499
Tax on realised gains	(66,560)	(13,133)
Charged to OCI for ordinary securities on gains or losses for the period	(300,219)	575,865
	<b>1,169,452</b>	<b>1,536,231</b>

## 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 Listed Investment Company 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% and 10%, if spread equally over all assets in the investment portfolio, would have led to a reduction in AFIC's comprehensive income of \$282.9 million and \$565.8 million respectively, at a tax rate of 30% (2021: \$314.1 million & \$628.1 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:

	2022	2021
	%	%
Energy	3.26	1.96
Materials	14.29	14.32
Industrials	12.68	14.40
Consumer Discretionary	7.07	7.83
Consumer Staples	5.19	4.42
Banks	18.36	18.97
Other Financials	9.14	8.88
Real Estate	2.97	2.47
Telecommunications	5.87	5.99
Health Care	14.77	14.40
Info Technology	4.61	4.63
Utilities	0.03	0.66
Cash	1.76	1.07

*Securities representing over 5% of the investment portfolio at 30 June were*

Commonwealth Bank	8.8	8.8
CSL	7.9	6.9
BHP	7.1	7.3
Transurban	5.1	3.8

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars. The international portfolio is a minor (1.1%) part of the total portfolio (2021 : 0.5%).

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 (including with a custodian) are invested in short-term deposits with Australia's "Big 4" commercial banks or in cash management trusts which invest predominantly in short-term 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. Receivables also include dividends from securities that have passed the record date for the distribution but have not paid as at balance date.

### 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. As at 30 June 2022, no such investments are held (2021 : Nil). AFIC engages a custodian, Northern Trust, to hold the shares that are in the sub-component of the investment portfolio that contains international shares. AFIC receives a GS007 report on Internal Controls for Custody, Investment Administration, Registry Monitoring and Related Information Technology Services from Northern Trust every 6 months.

## 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 2022	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
Payables	28,688	-	-	28,688	28,688
Borrowings	10,000	-	-	10,000	10,000
	<b>38,688</b>	<b>-</b>	<b>-</b>	<b>38,688</b>	<b>38,688</b>
<b>Derivatives</b>					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-
<hr/>					
30 June 2021	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
Payables	1,020	-	-	1,020	1,020
	<b>1,020</b>	<b>-</b>	<b>-</b>	<b>1,020</b>	<b>1,020</b>
<b>Derivatives</b>					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-

\* 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 the purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow). There were no put options outstanding at 30<sup>th</sup> June 2022.

## C. Unrecognised items

### 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 shareholder 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

These Notes provide further information about the basis of calculation of line items in the financial statements.

### D1. Current assets – cash

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand (including on-call)	144,619	97,122
	<b>144,619</b>	<b>97,122</b>

Cash holdings yielded an average floating interest rate of 0.08% (2021: 0.14%). All cash investments are held in a transactional account, with a custodian or in an over-night 'at call' account invested in cash management trusts which invest predominantly in short-term securities with an A1+ rating.

### D2. Credit Facilities

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Commonwealth Bank of Australia – cash advance facility	110,000	50,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	110,000	50,000
National Australia Bank- cash advance facility	20,000	0
Amount drawn down at 30 June	10,000	0
Undrawn facilities at 30 June	10,000	0
Total short-term loan facilities	130,000	50,000
Total drawn down at 30 June	10,000	0
Total undrawn facilities at 30 June	120,000	50,000

The above borrowings, with the exception of the NAB facility, 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 and hence are classified as current liabilities when drawn.

The debt facility with National Australia Bank is structured in the form of a securities lending arrangement. The terms of the agreement require that securities be pledged as collateral for the drawn secured borrowings under that facility and that such securities currently satisfy a minimum value of \$11 million (110% of the total drawn facility). These securities are held by the National Australia Bank but included as part of the Company's investment portfolio. As at 30 June 2022 the market value of the securities pledged as collateral was \$12.2 million (2021 : n/a).

### D3. Revaluation reserve

	2022 \$'000	2021 \$'000
Opening balance at 1 July	3,394,297	2,166,030
Gains/(losses) on investment portfolio		
- Equity Instruments	(1,008,188)	1,881,261
Provision for tax on above	300,219	(575,865)
Cumulative taxable realised (gains)/losses (net of tax)	(129,862)	(77,129)
	<b>2,556,466</b>	<b>3,394,297</b>

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

Opening balance at 1 July	416,071	397,712
Dividends paid	(35,430)	(58,770)
Cumulative taxable realised gains/(losses) (net of tax)	129,862	77,129
	<b>510,503</b>	<b>416,071</b>

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

Opening balance at 1 July	716,221	705,273
Dividends paid	(248,124)	(223,703)
Profit for the year	360,537	234,651
	<b>828,634</b>	<b>716,221</b>

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
1/07/2020	Balance		1,210,364		2,947,243
01/09/2020	Dividend Reinvestment Plan	i	5,583	6.30	35,165
01/09/2020	Dividend Substitution Share Plan	ii	776	6.30	n/a
23/02/2021	Dividend Reinvestment Plan	i	3,587	7.10	25,467
23/02/2021	Dividend Substitution Share Plan	ii	527	7.10	n/a
Various	Costs of issue		-	-	(145)
30/06/2021	Balance		1,220,837		3,007,730
31/08/2021	Dividend Reinvestment Plan	i	4,507	8.10	36,511
31/08/2021	Dividend Substitution Share Plan	ii	687	8.10	n/a
25/02/2022	Dividend Reinvestment Plan	i	3,317	7.86	26,073
25/02/2022	Dividend Substitution Share Plan	ii	558	7.86	n/a
Various	Costs of issue		-	-	(151)
30/06/2022	Balance		<b>1,229,906</b>		<b>3,070,163</b>

- 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 & Cboe 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 programme. During the financial year, no shares were bought back (2021: 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

	2022 \$'000	2021 \$'000
<b>Profit for the year</b>	<b>360,557</b>	<b>235,095</b>
Net decrease/(increase) in trading portfolio	(234)	(441)
Dividends received as securities under DRP investments	(74,888)	-
Demerger dividend – non-cash item	-	(36,505)
Decrease/(increase) in current receivables	3,413	(22,664)
- Less increase/(decrease) in receivables for investment portfolio	(9,875)	9,875
Increase/(decrease) in deferred tax liabilities	(366,217)	563,545
- Less (increase)/decrease in deferred tax liability on investment portfolio	366,779	(562,732)
Increase/(decrease) in current payables	27,668	136
- Less increase/(decrease) in dividends payable	(46)	(40)
- Less (increase) in payables for investment portfolio	(27,610)	-
Increase/(decrease) in provision for tax payable	49,946	(18,150)
Capital gains tax charge taken through equity	(66,560)	(13,133)
Prior year taxes paid relating to capital gains	13,945	23,798
Increase/(decrease) in other provisions/non-cash items	887	(17)
<b>Net cash flows from operating activities</b>	<b>277,765</b>	<b>178,767</b>

### E2. Tax reconciliations

#### Tax expense composition

Charge for tax payable relating to the current year	14,548	14,281
Over provision in prior years	(1,624)	(2,236)
(Increase)/Decrease in deferred tax assets	562	813
	<b>13,486</b>	<b>12,858</b>

#### Amounts recognised directly through Other Comprehensive Income

Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains/losses in the investment portfolio	(300,219)	575,865
	<b>(300,219)</b>	<b>575,865</b>

## Deferred tax assets & liabilities

The deferred tax balances are attributable to:

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
(a) Tax on unrealised gains or losses in the trading portfolio	(161)	(253)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	2,111	1,851
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(2,453)	(1,539)
	<b>(503)</b>	<b>59</b>

Movements:

Opening balance at 1 July	59	872
Credited/(charged) to Income statement	(562)	(813)
	<b>(503)</b>	<b>59</b>

Deferred tax assets and liabilities 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 J Paterson, C Drummond and C Walter have rented office space and, for J Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was \$51,824 (2021: \$62,608).

#### (b) AICS transactions with minority interests

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

	2022	2021
	\$'000	\$'000
Administration expenses charged for the year	2,262	2,528

#### (c) AICS transactions with other Listed Investment Companies

AICS had the following transactions with other Listed Investment Companies to which it provides services :

Administration expenses charged for the year to Mirrabooka Investments Ltd	1,702	1,467
Administration expenses charged for the year to AMCIL Ltd	1,021	916

### F2. Remuneration of auditors

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

	2022	2021
	\$	\$
<b>PricewaterhouseCoopers</b>		
<u>Audit Services</u>		
Audit or review of financial reports	214,834	210,050
<u>Audit related Services</u>		
AFSL compliance audit and review	8,707	8,331
<u>Non-Audit Services</u>		
Preparation and lodgement of tax returns	34,370	32,940
Assistance with ATO Combined Assurance Review	41,800	-
<b>Total remuneration</b>	<b>299,711</b>	<b>251,321</b>

### 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 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 (noting that the investment portfolio contains sub-components for ease of administration). 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 1 investment comprising more than 10% of AFIC's income – BHP (35.6% including the Woodside/BHP Petroleum merger dividend) (2021 2 investments : Woolworths (16.1% as a consequence of the Endeavour Group demerger) and BHP (11.0%)).

### 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 25 July 2022 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 & 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 2022 ("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 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 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 4 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. 45,680 shares vested during the year ended 30 June 2022.

The expense will be charged directly through the Income Statement in the following manner – 25% of the total estimated cost in Year 1, 50% of the total estimated cost in Year 2 less the expense charged in Year 1, 75% of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100% 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 License 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% 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 25% of the pre-tax amount being used by the executive to purchase shares in AFIC and/or the other LICs. 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 four 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.

27,429 shares for both LTIP and Annual Incentive (2021: 21,736 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of \$220,476 (2021: \$149,306).

#### (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 Payments* at the end of each year until the final year of vesting. The liability shown after the final year of vesting will represent the actual amount being paid to eligible employees as a cash-settled share-based payment.

54,569 rights were awarded under the plan during the year ended 30 June 2022 (2021: 67,777). An expense of \$537,943 (2021: \$826,722) was incurred for the 2018/19, 2019/20, 2020/21 and 2021/22 plans. 8,212 rights under the 2017/18 plan were forfeited during the year (12.1%).

Note that it is currently proposed that the Executive Long Term Incentive Plan be incorporated within the existing Annual Incentive Plan.

#### (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 needs 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% 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, 92% of the possible maximum was awarded, and 50% of this was used to buy shares in Djerriwarrh Investments Limited, as part of the Group's policy of rotating these purchases amongst the LICs other than AFIC to which AICS provides services.

#### (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:

	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Share-based payment expense	599	879

#### (d) Liability

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

## F7. 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% 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.

## F8. 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	
			2022	2021
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.

## F9. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for 6 years with effect from 1 July 2022 (prior year comparatives represent the former lease). Current commitments relating to leases at balance date, for the current lease (incl. GST), is:

	2022	2021
	\$'000	\$'000
Due within one year	508	667
Later than one year but less than five	2,302	-
Greater than five years	648	-
	3,458	667

The lease will be accounted for under the provisions of AASB 16 *Leases* when it commences.

## F10. Parent Entity Financial Information

### Summary financial information

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

	2022	2021
	\$'000	\$'000
<b>Balance sheet</b>		
Current assets	177,347	133,183
<b>Total assets</b>	<b>8,257,705</b>	<b>9,106,106</b>
Current liabilities	101,688	13,271
<b>Total liabilities</b>	<b>1,271,402</b>	<b>1,551,348</b>
<b>Shareholders' equity</b>		
Issued capital	3,070,313	3,007,730
<b>Reserves</b>		
Revaluation reserve	2,556,466	3,394,297
Realised capital gains reserve	510,503	416,071
General reserve	23,637	23,637
Retained earnings	825,384	713,023
	<b>3,915,990</b>	<b>4,547,028</b>
<b>Total shareholders' equity</b>	<b>6,986,303</b>	<b>7,554,758</b>
<b>Profit or loss for the year</b>	<b>360,477</b>	<b>233,319</b>
<b>Total comprehensive income</b>	<b>(347,472)</b>	<b>1,538,715</b>