Income,
Capital Growth,
Low Cost

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Appendix 4E Statment for the Full-Year Ending 30 June 2023

Contents

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 2023, with the prior corresponding period being the year ended 30 June 2022.

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

Results for Announcement to the Market

- Net Profit was $310.2 million, down 14.0% from the prior year. Last year's profit included $74.9 million of dividend arising from the merger of BHP Petroleum and Woodside. Excluding this item, net profit was up 8.6% on the prior year's adjusted figure.
- Net Profit attributable to members (excluding minority interests) was $309.8 million, down 14.1% from the prior year.
- Revenue from operating activities was $344.0 million, down 12.6% 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 0.14% for the year (2022: 0.16%).
- Net tangible assets as at 30 June 2023, before allowing for the final dividend and before the provision for deferred tax on unrealised gains in the investment portfolio were $7.19 per share (2022: $6.63).
- A fully-franked final dividend of 14 cents per share, the same as last year's final dividend, will be paid on 1 September 2023 to shareholders on the register on 14 August 2023. The shares are expected to trade ex-dividend on 11 August 2023. There is no conduit foreign income component of the dividend.
- The final dividend does not carry any New Zealand imputation credits.
- The Board has elected to source 7 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, equals 10 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 11 cents per share (up from 10 cents in the previous corresponding period) was paid to shareholders on 24 February 2023.
- The total dividend for the financial year is therefore 25 cents per share, fully franked, up from 24 cents last year.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price will be set at a **nil 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 DSSP need to be received by the share registry by 5pm (AEST) on 15 August 2023. 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 Thursday 27 July 2023 at 3.30pm (AEST). Details are on the website afi.com.au.
- The 2023 AGM will be held at 10am on Tuesday 3 October. Further details on how to participate will be sent to shareholders.

Full Year Report to 30 June 2023

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 0.14% with no additional fees.

The Full Year Profit was $310.2 million, down from $360.6 million in the previous corresponding period. Last year's profit included a dividend of $74.9 million (which was non-cash but carries franking credits with it) resulting from the BHP Petroleum/Woodside merger. Excluding this figure, the Full Year Profit was up 8.6% from $285.7 million in the corresponding period last year. The increase in the underlying profit from last year was driven by higher dividends received from investee companies and adjustments made to the portfolio throughout the year.

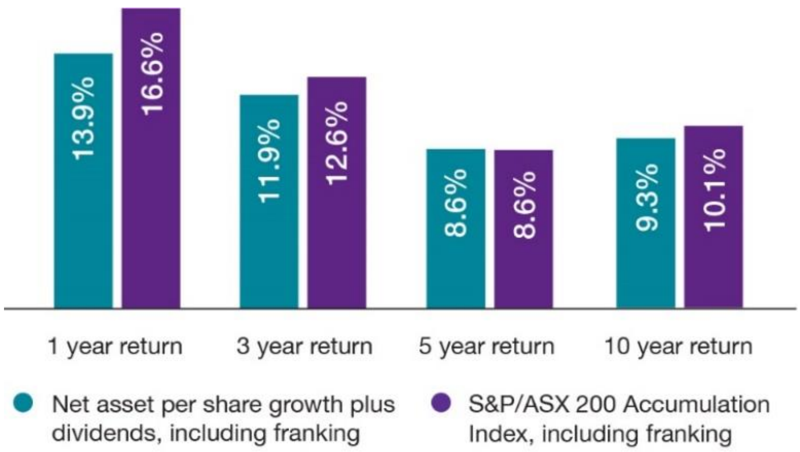
Earnings per share for the financial year were 25.1 cents per share. The final dividend was maintained at 14 cents per share fully franked, bringing total fully franked dividends applicable for the year to 25 cents per share following the 1 cent per share increase in the interim dividend declared in January 2023.

Activity in the portfolio was focused primarily on recycling capital into existing holdings by trimming some positions where companies were trading at extreme valuations during the year and selling positions where companies in our assessment are facing significant structural industry challenges and competition.

The portfolio returned 13.9% in comparison to the S&P/ASX 200 Index return of 16.6% when the benefit of franking is included for both returns. The Materials sector was up 22.6% over the financial year, significantly outperforming the broader Industrials sector which was up 11.8% and the S&P/ASX 200 Index over this period. While our long-term underweight position in Materials (particularly in lithium and gold) detracted from relative performance, we remain comfortable with the positioning of the portfolio regarding this more cyclical part of the market.

Note AFIC's performance returns are after costs. AFIC on occasions incurs realised capital gains tax on the sale of shares. Not all the of the franking generated from these realised capital gains is paid out as dividends and is therefore not included in these performance figures.

Portfolio return (including the full benefit of franking) – per annum to 30 June 2023



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

Market Commentary and Portfolio Performance

Including the benefit of franking credits, the S&P/ASX 200 Accumulation Index rose 16.6% over the financial year, with all sectors delivering positive returns. Best performing sectors were Information Technology, up 38.1% and Materials, up 22.6%. The Information Technology sector has shown similar strength to the NASDAQ Composite Index over recent months amid growing interest in the future applications of artificial intelligence. The strength in the Materials sector was primarily driven by the re-opening of the Chinese economy following a period of lockdown during the COVID-19 pandemic. Materials exposure in the portfolio is primarily through our holdings in BHP and Rio Tinto. Sectors that underperformed the broader market included Healthcare which increased 5.7%. Consumer Staples up 6.2% and Real Estate up 6.8%.

The portfolio returned 13.9% when franking is included. Together with the strong rally in Materials the relative underperformance in the strong market came from a number of high-quality companies in the portfolio which trailed the return of the overall market. These included Transurban Group, Mainfreight and ASX. However, despite these short-term movements we still consider the prospects for these companies remain strong.

Following a strong financial year ended June 2022, our overweight position in Amcor also had a meaningful negative impact on relative performance. Customer demand for its products declined from the panic buying during the COVID-19 related supply chain challenges leading to a subsequent period of customer destocking.

The underweight position in materials, which includes lithium and gold stocks also negatively impacted relative performance as these sectors had a particularly strong year. We maintain our research efforts in the lithium sector, however high spot commodity prices in these markets make us cautious about investing at present for the medium to long term.

Companies in the portfolio that performed relatively well against the Index through the 12-month period included strong returns from Reece, AUB Group, James Hardie Industries, Carsales.com and Xero.

Portfolio Adjustments

While we endeavour to have low turnover to reduce the impact of tax paid on returns, recycling capital from companies trading at extreme valuations to capture the appropriate buying opportunity remains fundamental to our approach. In this context, the portfolio benefitted from trimming several holdings at appropriate times through the year. This included holdings in NEXTDC, Brambles, IRESS, Carsales.com (following participation in recent equity placements which took the holding to above our desired portfolio position), Commonwealth Bank of Australia, Westpac Banking Corporation, ANZ Group Holdings, Mainfreight, Transurban, Ramsay Healthcare and Amcor. We exited the position in Temple & Webster which allowed us to redeploy this capital in other opportunities.

We also exited our holdings in Orica, InvoCare, Reliance Worldwide and Ryman Healthcare. 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 the majority of these companies to be increasingly challenged as a result.

As a counterbalance to this activity most purchases during the year were focused on increasing weightings to existing holdings. This included BHP, National Australia Bank, Domino's Pizza, IDP Education, Santos, CSL, Mirvac, Computershare and Goodman Group.

In managing the portfolio, we endeavour to hold a diversified portfolio of quality companies with an appropriate mix of income and growth attributes to achieve our long-term investment objectives. As value across the market during the financial year became more difficult to observe, we materially increased activity to enhance income through the writing of call options over selected holdings. Pleasingly, this activity provided a meaningful contribution to an improvement in income for the year.

One new stock was added through the year. We initiated a position in Breville Group, which is a kitchen appliance company operating premium brands in the cooking, beverage and food preparation categories. The business was founded in 1932, maintains a heavy focus on product innovation and has very strong global distribution which should provide for further profit growth. Breville Group has a long history of excellent financial discipline delivering strong returns for shareholders.

International Portfolio

We have continued to trial the management of an international portfolio over the period. This portfolio consists of what we have assessed to be high-quality companies with a strong competitive advantage, good growth potential and across a broad range of industries. This portfolio was first initiated in May 2021 as a potential precursor to establishing a separate low-cost international Listed Investment Company in the future.

At 30 June 2023 approximately $115.4 million was invested in 41 companies in this portfolio (which represents approximately 1.3% of the total AFIC portfolio).

The performance of the portfolio since its inception is ahead of its benchmark index which is very pleasing given the volatile market conditions that have been in evidence over this period.

Outlook

Medium-term conditions remain unpredictable with a broad range of potential outcomes. Economic growth and the employment rate remain sound despite inflationary pressures, the recent rapid rises in interest rates and growth in China slowing.

In this context equity markets have surprisingly been strong despite broad-based expectations of a significant slowing in many global economies including Australia.

While aware of the prevailing environment our research effort remains focused on the fundamentals of the companies in our investment universe. We consider the portfolio remains invested in quality companies forecast to deliver an appropriate mix of income and growth returns positioning us well to deliver our long-term investment objectives. As a result, we can afford to take a patient approach and use any short-term volatility to our advantage as long term investors.

Please direct any enquiries to:

Mark Freeman
Managing Director
(03) 9225 2101

Geoff Driver
General Manager
(03) 9225 2102

26 July 2023

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($m)
BHP	148.1
National Australia Bank	50.4
IDP Education	39.4
Domino's Pizza Group	23.4
Santos	19.1

Disposals	Proceeds ($m)
NEXTDC	69.9
Brambles	40.2
Orica*	39.0
IRESS	38.3
InvoCare*	38.3

*Complete disposal from the portfolio.

New Companies Added to the Portfolio

Breville Group

Top 25 Investments Valued at Closing Prices at 30 June 2023

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2023

		Total Value $ Million	% of the Portfolio
1	BHP Group	793.3	9.1%
2	Commonwealth Bank of Australia	783.0	8.9%
3	CSL	674.3	7.7%
4	Macquarie Group *	397.7	4.5%
5	Transurban Group *	386.3	4.4%
6	Wesfarmers	363.7	4.2%
7	National Australia Bank *	341.3	3.9%
8	Westpac Banking Corporation	322.8	3.7%
9	Woolworths Group *	292.2	3.3%
10	James Hardie Industries *	215.1	2.5%
11	Rio Tinto	213.6	2.4%
12	Telstra Group	209.3	2.4%
13	Woodside Energy Group *	200.1	2.3%
14	Goodman Group	193.8	2.2%
15	ANZ Group Holdings	192.0	2.2%
16	Mainfreight	186.8	2.1%
17	Coles Group *	179.0	2.0%
18	Carsales.com *	161.2	1.8%
19	Amcor	154.8	1.8%
20	ResMed	144.0	1.6%
21	Reece	134.9	1.5%
22	Sonic Healthcare	118.1	1.3%
23	Xero	105.9	1.2%
24	Santos *	104.5	1.2%
25	ARB Corporation	104.1	1.2%
Total		**6,971.8**	
As percentage of total portfolio value (excludes cash)			**79.6%**

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

Portfolio Performance to 30 June 2023

Performance Measures to 30 June 2023	1 Year	3 Years % pa	5 Years % pa	10 Years % pa
Portfolio Return – Net Asset Backing Return Including Dividends Reinvested	12.2%	10.2%	6.8%	7.5%
S&P/ASX 200 Accumulation Index	14.8%	11.1%	7.2%	8.6%
Portfolio Return – Net Asset Backing Gross Return Including Dividends Reinvested*	13.9%	11.9%	8.6%	9.3%
S&P/ASX 200 Gross Accumulation Index*	16.6%	12.6%	8.6%	10.1%

* 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 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.

Past performance is not indicative of future performance.

Australian Foundation Investment Company Limited (AFIC)

Consolidated Annual Financial Statements

30 June 2023

FINANCIAL STATEMENTS

Consolidated Income Statement for the Year Ended 30 June 2023

	Note	2023 $'000	2022 $'000
Dividends and distributions	A3	334,740	388,492
Interest income from deposits	A3	3,714	61
Other revenue	A3	5,553	4,871
Total revenue		**344,007**	**393,424**
Net gains/(losses) on trading portfolio	A3	6,000	629
Income from operating activities		**350,007**	**394,053**
Finance costs		(1,265)	(845)
Administration expenses	B1	(17,987)	(19,165)
Profit before income tax expense		**330,755**	**374,043**
Income tax expense	B2, E2	(20,544)	(13,486)
Profit for the year		**310,211**	**360,557**
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company		309,763	360,537
Minority interest		448	20
		310,211	360,557
		Cents	**Cents**
Basic earnings per share	A5	25.06	29.40

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

Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2023

	Year to 30 June 2023			Year to 30 June 2022		
	Revenue[1]	**Capital[1]**	**Total**	Revenue[1]	Capital[1]	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Profit for the year	**310,211**	**-**	**310,211**	**360,557**	**-**	**360,557**
Other Comprehensive Income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	697,758	**697,758**	-	(1,008,188)	**(1,008,188)**
Tax on above	-	(210,319)	**(210,319)**	-	300,219	**300,219**
Total Other Comprehensive Income	-	**487,439**	**487,439**	-	**(707,969)**	**(707,969)**
Total Comprehensive Income	**310,211**	**487,439**	**797,650**	**360,557**	**(707,969)**	**(347,412)**

[1] 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities 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 2023			Year to 30 June 2022		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Equity holders of Australian Foundation Investment Company	309,763	487,439	797,202	360,537	(707,969)	(347,432)
Minority Interests	448	-	448	20	-	20
	310,211	487,439	797,650	360,557	(707,969)	(347,412)

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

Consolidated Balance Sheet as at 30 June 2023

	Note	2023 $'000	2022 $'000
Current assets			
Cash	D1	165,385	144,619
Receivables		44,709	36,598
Trading portfolio		3,837	4,979
Total current assets		**213,931**	**186,196**
Non-current assets			
Investment portfolio	A2	8,749,226	8,082,513
Total non-current assets		**8,749,226**	**8,082,513**
Total assets		**8,963,157**	**8,268,709**
Current liabilities			
Payables		1,268	28,688
Borrowings – bank debt		10,000	10,000
Tax payable		32,156	62,567
Provisions		6,057	6,114
Total current liabilities		**49,481**	**107,369**
Non-current liabilities			
Provisions		90	896
Deferred tax liabilities - other		830	503
Deferred tax liabilities – investment portfolio	B2	1,355,200	1,169,452
Total non-current liabilities		**1,356,120**	**1,170,851**
Total liabilities		**1,405,601**	**1,278,220**
Net Assets		**7,557,556**	**6,990,489**
Shareholders' equity			
Share capital	A1, D6	3,136,282	3,070,163
Revaluation reserve	A1, D3	2,926,191	2,556,466
Realised capital gains reserve	A1, D4	509,741	510,503
General reserve	A1	23,637	23,637
Retained profits	A1, D5	960,171	828,634
Parent entity interest		**7,556,022**	**6,989,403**
Minority interest		**1,534**	**1,086**
Total equity		**7,557,556**	**6,990,489**

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

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2023

Year Ended 30 June 2023	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 year		**3,070,163**	**2,556,466**	**510,503**	**23,637**	**828,634**	**6,989,403**	**1,086**	**6,990,489**
Dividends paid to shareholders	A4	-	-	(118,476)	-	(178,226)	**(296,702)**	**-**	**(296,702)**
- Dividend Reinvestment Plan	D6	66,268	-	-	-	-	**66,268**	**-**	**66,268**
Other share capital adjustments		(149)	-	-	-	-	**(149)**	**-**	**(149)**
Total transactions with shareholders		**66,119**	**-**	**(118,476)**	**-**	**(178,226)**	**(230,583)**	**-**	**(230,583)**
Profit for the year		-	-	-	-	309,763	**309,763**	**448**	**310,211**
Other Comprehensive Income (net of tax)									
Net gains for the period		-	487,439	-	-	-	**487,439**	**-**	**487,439**
Other Comprehensive Income for the year		-	487,439	-	-	-	**487,439**	**-**	**487,439**
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(117,714)	117,714	-	-	**-**	**-**	**-**
Total equity at the end of the year		**3,136,282**	**2,926,191**	**509,741**	**23,637**	**960,171**	**7,556,022**	**1,534**	**7,557,556**

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 2023 (continued)

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

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 2023

	Note	2023 $'000 Inflows/ (Outflows)	2022 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		20,042	20,888
Purchases for trading portfolio		(5,178)	(1,860)
Interest received		3,714	61
Dividends and distributions received		320,485	287,431
		339,063	306,520
Other revenue		5,877	4,962
Administration expenses		(18,909)	(18,383)
Finance costs paid		(1,265)	(845)
Taxes paid		(7,083)	(14,489)
Net cash inflow/(outflow) from operating activities	E1	**317,683**	**277,765**
Cash flows from investing activities			
Sales from investment portfolio		491,219	657,117
Purchases for investment portfolio		(490,993)	(662,366)
Taxes paid on sales from investment portfolio		(66,560)	(13,945)
Net cash inflow/(outflow) from investing activities		**(66,334)**	**(19,194)**
Cash flows from financing activities			
Net bank borrowings		-	10,000
Share issue transaction costs		(149)	(151)
Dividends paid		(230,434)	(220,923)
Net cash inflow/(outflow) from financing activities		**(230,583)**	**(211,074)**
Net increase/(decrease) in cash held		20,766	47,497
Cash at the beginning of the year		144,619	97,122
Cash at the end of the year	D1	**165,385**	**144,619**

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 consolidated 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:

	2023 $'000	2022 $'000
Share capital	3,136,282	3,070,163
Revaluation reserve	2,926,191	2,556,466
Realised capital gains reserve	509,741	510,503
General reserve	23,637	23,637
Retained profits	960,171	828,634
	7,556,022	**6,989,403**

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:

	2023 $'000	2022 $'000
Equity instruments (excluding below)	7,834,313	7,492,259
Equity instruments (over which options may be written)	799,527	501,059
Equity instruments (listed on non-Australian/NZ Exchanges)	115,386	89,195
	8,749,226	**8,082,513**

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 2023 and 30 June 2022 were as follows:

	30 June 2023	**30 June 2022**
Net tangible asset backing per share	**$**	**$**
Before tax	**7.19**	**6.63**
After tax	6.09	5.68

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 $538.7 million (2022: $729.0 million) of equity securities were sold. The cumulative gain on the sale of securities was $117.7 million for the period after tax (2022: $129.9 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 2023 is set out below.

Dividends and Distributions	2023 $'000	2022 $'000
Income from securities held in investment portfolio at 30 June	328,188	383,115
Income from investment securities sold during the year	6,552	5,166
Income from securities held in trading portfolio at 30 June	-	211
Income from trading securities sold during the year	-	-
	334,740	**388,492**

	2023 $'000	2022 $'000
Interest income		
Revenue from deposits and cash management trusts	**3,714**	**61**
Other revenue		
Administration fees	5,553	4,871
Other income	-	-
	5,553	**4,871**

Dividend income

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

Trading income

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

Net gains		2023 $'000	2022 $'000
Net realised gains/(losses) from trading portfolio	– shares	48	224
	- options	4,542	1,008
Unrealised gains/(losses) from trading portfolio	- shares	1,010	(641)
	- options	400	38
		6,000	**629**

$145.3 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2022: $131.6 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 $155.8 million worth of securities at an agreed price – the 'exposure' (2022: $21.4 million). There were no put options in the portfolio at 30 June 2023 (2022 : $nil).

A4. Dividends paid

The dividends paid and payable for the year ended 30 June 2023 are shown below:

	2023 $'000	2022 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2022 of 14 cents fully franked at 30% paid 30 August 2022 (2022: 14 cents fully franked at 30% paid on 31 August 2021).	165,866	165,339
Interim dividend for the year ended 30 June 2023 of 11 cents per share fully franked at 30% paid 24 February 2023 (2022: 10 cents fully franked at 30% paid 25 February 2022)	130,836	118,215
	296,702	**283,554**
Dividends paid in cash	230,434	220,970
Dividends reinvested in shares	66,268	62,584
	296,702	**283,554**
Dividends forgone via DSSP	11,400	9,767
(b) Franking credits		
Opening balance of franking account at 1 July	197,933	158,009
Franking credits on dividends received	109,312	138,158
Tax paid during the year	73,512	27,561
Franking credits paid on ordinary dividends paid	(127,158)	(121,523)
Franking credits deducted on DSSP shares issued	(4,887)	(4,272)
Closing Balance of Franking Account	**248,712**	**197,933**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	41,364	69,967
Adjusted Closing Balance	**290,076**	**267,900**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(74,421)	(73,794)
Net available	**215,655**	**194,106**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	503,195	452,914

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	2023 $'000	2022 $'000
(Figures in A$ at year-end exchange rate : 2023 : NZ1.085:$A1; 2022 : $NZ1.073:$A1)		
Opening balance	18,898	13,261
Imputation credits on dividends received	6,970	5,848
Imputation credits on dividends paid	(15,429)	-
Closing balance	**10,439**	**19,109**

A NZ imputation credit on NZ 3.5 cents of the dividend was attached to the final dividend paid on 30 August 2022. There is no NZ imputation credit attached to the proposed final dividend for the year ended 30 June 2023.

(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 2023 to be paid on 1 September 2023, but not recognised as a liability at the end of the financial year is: **173,649**

(e) Listed Investment Company capital gain account	2023 $'000	2022 $'000
Balance of the Listed Investment Company (LIC) capital gain account at 1 July:	158,619	43,793
Capital gains (incl LIC gains received from dividends)	52,670	150,256
LIC gains paid as part of dividend	(118,476)	(35,430)
Balance at 30 June	92,813	158,619
This equates to an attributable gain of:	132,590	226,599

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. $124.0 million attributable gain is attached to the final dividend to be paid on 1 September 2023.

A5. Earnings per share

The table below shows the earnings per share based on the profit for the year: Basic Earnings per share	2023 Number	2022 Number
Weighted average number of ordinary shares used as the denominator	1,236,299,822	1,226,476,015
	$'000	**$'000**
Profit for the year	309,763	360,537
	Cents	**Cents**
Basic earnings per share	25.06	29.40

Excluding the Woodside/BHP Petroleum merger dividend for the year ended 30 June 2022, the basic earnings per share figure was 23.3 cents.

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2023 $'000	2022 $'000
Rental expense relating to non-cancellable leases	(648)	(760)
Employee benefit expenses	(11,093)	(12,819)
Depreciation charge	-	-
Other administration expenses	(6,246)	(5,586)
	(17,987)	**(19,165)**

Employee benefit expenses

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

	Short-term **$**	**Post-employment** **$**	**Share-based** **$**	**Total** **$**
2023				
Non-executive Directors	801,828	49,042	-	850,870
Executives	3,595,245	110,000	-	3,705,245
Total	**4,397,073**	**159,042**		**4,556,115**
2022				
Non-executive Directors	843,182	56,818	-	900,000
Executives	3,208,522	110,000	531,275	3,849,797
Total	**4,051,704**	**166,818**	**531,275**	**4,749,797**

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

	2023 $'000	**2022 $'000**
Profit before income tax expense	**330,755**	**374,073**
Tax at the Australian tax rate of 30% (2022: 30%)	99,226	112,222
Tax offset for franked dividends received	(76,518)	(96,709)
Sundry items whose tax treatment differs from accounting treatment	(665)	(403)
	22,043	**15,110**
Over provision in prior years	(1,499)	(1,624)
Total tax expense	**20,544**	**13,486**

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.

	2023 $'000	**2022 $'000**
Deferred tax liabilities on unrealised gains in the investment portfolio	**1,355,200**	**1,169,452**
Opening balance at 1 July	1,169,452	1,536,231
Tax on realised gains	(24,571)	(66,560)
Charged to OCI for ordinary securities on gains or losses for the period	210,319	(300,219)
	1,355,200	**1,169,452**

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 $306.2 million and $612.4 million respectively, at a tax rate of 30% (2022: $282.9 million & $565.8 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:

	2023 %	2022 %
Energy	3.41	3.26
Materials	15.46	14.29
Industrials	12.58	12.68
Consumer Discretionary	7.41	7.07
Consumer Staples	5.42	5.19
Banks	18.42	18.36
Other Financials	9.00	9.14
Real Estate	3.44	2.97
Telecommunications	6.25	5.87
Health Care	14.00	14.77
Info Technology	2.73	4.61
Utilities	0.03	0.03
Cash	1.85	1.76
Securities representing over 5% of the investment portfolio at 30 June were		
BHP	9.1	7.1
Commonwealth Bank	8.9	8.8
CSL	7.7	7.9
Transurban	4.4	5.1

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 (1.3%) part of the total portfolio (2022 : 1.1%).

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 2023, no such investments are held (2022 : 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 2023	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Payables	1,268	-	-	1,268	1,268
Borrowings	10,000	-	-	10,000	10,000
	11,268	**-**	**-**	**11,268**	**11,268**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-

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
Non-derivatives					
Payables	28,688	-	-	28,688	28,688
Borrowings	10,000	-	-	10,000	10,000
	38,688	**-**	**-**	**38,688**	**38,688**
Derivatives					
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 30th June 2023 or 30th 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

	2023 $'000	2022 $'000
Cash at bank	755	747
Cash with custodian	4,359	5,660
Cash Management Trusts	160,271	138,212
	165,385	**144,619**

Cash holdings yielded an average floating interest rate of 2.97% (2022: 0.08%). 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

	2023 $'000	2022 $'000
Commonwealth Bank of Australia – cash advance facility	110,000	110,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	110,000	110,000
National Australia Bank- cash advance facility	20,000	20,000
Amount drawn down at 30 June	10,000	10,000
Undrawn facilities at 30 June	10,000	10,000
Total short-term loan facilities	130,000	130,000
Total drawn down at 30 June	10,000	10,000
Total undrawn facilities at 30 June	120,000	120,000

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 2023 the market value of the securities pledged as collateral was $14.6 million (2022 : $12.2 million).

D3. Revaluation reserve

	2023 $'000	2022 $'000
Opening balance at 1 July	2,556,466	3,394,297
Gains/(losses) on investment portfolio		
- Equity Instruments	697,758	(1,008,188)
Provision for tax on above	(210,319)	300,219
Cumulative taxable realised (gains)/losses (net of tax)	(117,714)	(129,862)
	2,926,191	**2,556,466**

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	510,503	416,071
Dividends paid	(118,476)	(35,430)
Cumulative taxable realised gains/(losses) (net of tax)	117,714	129,862
	509,741	**510,503**

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	828,634	716,221
Dividends paid	(178,226)	(248,124)
Profit for the year	309,763	360,537
	960,171	**828,634**

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
1/07/2021	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		1,229,906		3,070,163
30/08/2022	Dividend Reinvestment Plan	**i**	4,883	7.56	36,914
30/08/2022	Dividend Substitution Share Plan	**ii**	836	7.56	n/a
24/02/2023	Dividend Reinvestment Plan	**i**	4,027	7.29	29,354
24/02/2023	Dividend Substitution Share Plan	**ii**	697	7.29	n/a
Various	Costs of issue		-	-	(149)
30/06/2023	Balance		**1,240,349**		**3,136,282**

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 (2022: 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

	2023 $'000	2022 $'000
Profit for the year	**310,211**	**360,557**
Net decrease/(increase) in trading portfolio	1,142	(234)
Dividends received as securities under DRP investments	(16)	(74,888)
Decrease/(increase) in current receivables	(8,111)	3,413
- Less increase/(decrease) in receivables for investment portfolio	3,223	(9,875)
Increase/(decrease) in deferred tax liabilities	186,075	(366,217)
- Less (increase)/decrease in deferred tax liability on investment portfolio	(185,748)	366,779
Increase/(decrease) in current payables	(27,420)	27,668
- Less increase/(decrease) in dividends payable	2	(46)
- Less (increase)/decrease in payables for investment portfolio	27,610	(27,610)
Increase/(decrease) in provision for tax payable	(30,411)	49,946
Capital gains tax charge taken through equity	(24,571)	(66,560)
Prior year taxes paid relating to capital gains	66,560	13,945
Increase/(decrease) in other provisions/non-cash items	(863)	887
Net cash flows from operating activities	**317,683**	**277,765**

E2. Tax reconciliations

Tax expense composition

Charge for tax payable relating to the current year	21,716	14,548
Over provision in prior years	(1,499)	(1,624)
Increase/(decrease) in deferred tax liabilities	327	562
	20,544	**13,486**

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	210,319	(300,219)
	210,319	**(300,219)**

Deferred tax assets & liabilities

The deferred tax balances are attributable to:

		2023 $'000	2022 $'000
(a)	Tax on unrealised gains or losses in the trading portfolio	(423)	(161)
(b)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,929	2,111
(c)	Interest and dividend income receivable which is not assessable for tax until receipt	(2,336)	(2,453)
		(830)	**(503)**

Movements:

	2023	2022
Opening balance at 1 July	(503)	59
Credited/(charged) to Income statement	(327)	(562)
	(830)	**(503)**

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 $45,369 (2022: $51,824).

(b) AICS transactions with minority interests

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

	2023 $'000	2022 $'000
Administration expenses charged for the year	2,442	2,262

(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	2,058	1,702
Administration expenses charged for the year to AMCIL Ltd	1,216	1,021

F2. Remuneration of auditors

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

	2023 $	2022 $
PricewaterhouseCoopers		
Audit Services		
Audit or review of financial reports	176,496	163,106
Audit related Services		
AFSL compliance audit and review	9,098	8,707
Permitted Non-Audit Services		
Review of realised CGT balances	63,702	51,728
Preparation and lodgement of tax returns	35,864	34,370
Assistance with ATO Combined Assurance Review	-	41,800
Total remuneration	**285,160**	**299,711**

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 17.3% (2022 1 investment : BHP (35.6% including the Woodside/BHP Petroleum merger dividend)).

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 26 July 2023 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 2023 ("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. The Group had no convertible notes on issue for the years ended 30 June 2023 or 30 June 2022.

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 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 Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive 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 and, in the case of performance of the Group and other investment companies, longer term performance of up to 10 years. For the Employee Share Acquisition Scheme and a portion of the Executive Incentive Plan, 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 both the Executive Incentive Plan and the Investment Team Incentive Plan is recognised on the Balance Sheet.

The Executive Long Term Incentive Plan was discontinued during the year and the Executive Incentive Plan was modified to take this into account. No further awards will be made under the Executive Long Term Incentive Plan – the 2019/20, 2020/21 and 2021/22 Plans have all been cancelled.

62,569 shares vested during the year in respect of the 2018/19 plan (2022 : 45,680). No further shares are eligible for vesting.

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 Incentive Arrangements

Share Incentive arrangements

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 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.

37,897 shares for both the former Executive Long Term Incentive and former Annual Incentive Plans (2022: 27,429 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $276,813 (2022: $220,476).

(ii) Executive Long Term Incentive Plan (discontinued)

An amount of $798,000 was written back as a result of the discontinuation of the 2019/20, 2020/21 and 2021/22 Plans.

1,632 rights under the 2018/19 plan were forfeited during the year (2.5%).

(b) Employee Share Acquisition Scheme (ESAS)

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, 58% of the possible maximum was awarded, and 50% of this was used to buy shares in Mirrabooka 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:

	2023	**2022**
	$'000	**$'000**
Share-based payment expense (ESAS only in 2023)	55	599

(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 note 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**	
			2023	**2022**
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:

	2023 $'000	2022 $'000
Due within one year	534	508
Later than one year but less than five	2,416	2,302
Greater than five years	-	648
	2,950	3,458

F10. Parent Entity Financial Information

Summary financial information

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

	2023 $'000	2022 $'000
Balance sheet		
Current assets	203,360	177,347
Total assets	**8,952,645**	**8,257,705**
Current liabilities	43,607	101,688
Total liabilities	**1,401,070**	**1,271,402**
Shareholders' equity		
Issued capital	3,136,432	3,070,313
Reserves		
Revaluation reserve	2,926,191	2,556,466
Realised capital gains reserve	509,741	510,503
General reserve	23,637	23,637
Retained earnings	955,574	825,384
	4,415,143	**3,915,990**
Total shareholders' equity	**7,551,575**	**6,986,303**
Profit or loss for the year	**308,418**	**360,477**
Total comprehensive income	**795,857**	**(347,492)**