AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Appendix 4E Statement for the Full-Year ending 30 June 2021

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 2021 with the prior corresponding period being the year ended 30 June 2020.

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

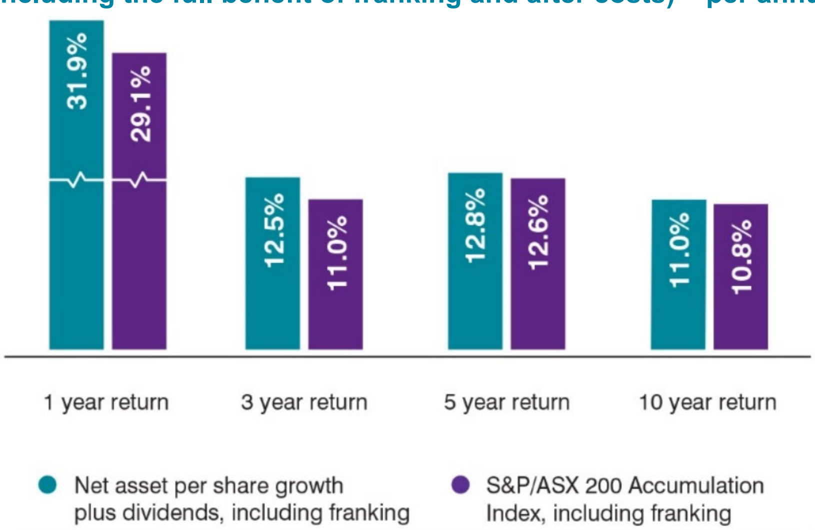
Results for announcement to the market

- Net profit was $235.1 million, 2.2% down from the prior year.
- Net profit attributable to members (excluding minority interests) was $234.7 million, 2.2% down from the prior year.
- Revenue from operating activities was $262.8 million, 0.6% down 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 (2020: 0.13%).
- Net tangible assets per share as at 30 June 2021, before allowing for the final dividend, were $7.45 per share before allowing for the provision for deferred tax on unrealised gains in the investment portfolio (2020: $5.96).
- A fully-franked final dividend of 14 cents per share, the same as last year's final dividend, will be paid on 31 August 2021 to shareholders on the register on 12 August 2021. The shares are expected to trade ex-dividend on 11 August 2021. There is no conduit foreign income component of the dividend.
- There is no New Zealand imputation credit attached to this dividend.
- 3 cents of the final dividend are sourced from capital gains, on which the Group has paid or will pay tax. The amount of the pre-tax attributable gain, known as an "LIC capital gain", is therefore 4.29 cents. 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 23 February 2021.
- 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 of which will be set at a **3.5% discount** to the Volume Weighted Average Price of the Company's shares traded on the ASX and Chi-X automated trading systems over the five trading days after the shares trade ex-dividend. Notices of participation in the DRP & the DSSP need to be received by the share registry by 5 pm (AEST) on 13 August 2021. All shares issued under the DRP and DSSP will rank equally with existing shares.
- The Company will be providing an update on these results via a webcast for shareholders on Tuesday 27 July 2021 at 3.30 p.m. (AEST). Details are on the website afi.com.au.
- The 2021 AGM will be held at 10.00 AM on Tuesday 5 October. Further details on how to participate will be sent to shareholders.

Portfolio outperforms, final dividend maintained
Full Year Report to 30 June 2021

- **AFIC invests in a diversified portfolio of Australian equities, seeking to provide attractive income and capital growth over the medium to long term to shareholders at a low cost and low volatility. AFIC's management expense ratio is 0.14% with no performance fees.**
- **The Full Year Profit was $235.1 million, down from $240.4 million in the previous corresponding period. The profit to 30 June 2021 includes a demerger dividend of $36.5 million (which was non-cash and carries no franking) resulting from the Endeavour Group demerger from Woolworths. Excluding this one-off item, the profit figure to 30 June 2021 was $198.6 million. This fall in profit versus the corresponding period last year was a result of the decline in underlying income as the economic impact of the COVID-19 pandemic continued to limit dividends for many holdings in the portfolio.**
- **AFIC, as a long-standing listed investment company, has reserves that can be used in difficult times. Drawing upon these reserves, the final dividend was maintained at 14 cents per share fully franked despite the fall in income over the year. Total fully franked dividends applicable for the year are 24 cents per share, the same as last year. Despite the significant disruption to income arising from COVID-19 over the last two years, AFIC has maintained its dividends to shareholders through this period.**
- **Activity in the portfolio was focused on consolidating the position around what we have assessed to be high-quality companies with strong industry positions. This comprised exiting some holdings to fund purchases in existing and selected new holdings, including participation in the PEXA Group IPO.**
- **Portfolio return for the year was 31.9%, including franking. This return was ahead of the S&P/ASX 200 Accumulation Index, which was up 29.1%, including franking. Over 10 years, the corresponding figures are 11.0% for AFIC and 10.8% for the Index. AFIC's performance returns are after costs. The short and long term performance have been achieved with low portfolio turnover, providing very tax effective returns for shareholders. These returns have also been delivered with very low volatility, achieving an attractive profile of return relative to risk for investors.**

Portfolio return (including the full benefit of franking and after costs) – per annum to 30 June 2021



Past performance is not indicative of future performance.

Portfolio Performance

The Australian share market delivered a very strong performance for the financial year as concerns about the lingering effects of COVID-19 were put aside by the positive stimulus provided by government and central banks, and better than expected company earnings. The positive mood of investors was also reinforced by the efficacy of vaccines and their deployment in a number of major markets.

The S&P/ASX 200 Accumulation Index delivered a positive performance in 11 of the 12 months for the financial year, culminating in a 12-month return of 29.1%, including franking – one of the strongest returns on record. AFIC's portfolio outperformed over this period, with a return of 31.9%, which also includes the benefit of franking.

Companies in the portfolio that contributed strongly to the positive relative return to the Index through the 12-month period were Reece, Mainfreight, ARB Corporation, James Hardie Industries and ALS.

The long term performance of the portfolio, which is better aligned with the Company's investment timeframes, was 11.0% per annum for the 10 years to 30 June 2021. This is slightly ahead of the Index return over the same period of 10.8%. Both of these figures include the benefit of franking. AFIC's performance numbers are after costs.

Portfolio Adjustments

A number of purchases were undertaken during the financial year. The largest was participation in the IPO of PEXA Group. While the pricing reflected the strong market conditions towards the end of the period, the company appears well positioned as a good long-term investment. Other new holdings added to the portfolio were Endeavour Group, due to its demerger from Woolworths, FINEOS Corporation (including participation in its placement), Domino's Pizza Enterprises, Temple & Webster, Nanosonics and IDP Education. Periods of volatility throughout the year also provided opportunities to add to holdings with strong market positions such as Woolworths and ASX.

Major sales included the complete disposal of holdings in South32, Alumina and Brickworks, and these funds were deployed elsewhere in the portfolio. There was also some trimming of the positions in Qube Holdings, Brambles and Oil Search.

International Portfolio

As first signalled at the AGM in October 2020, a small part of our funds, $48 million (which represents approximately 0.5% of the portfolio) was invested into a diversified global equities portfolio during the latter half of the financial year. This 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 activity is potentially a precursor to establishing a separate low-cost international Listed Investment Company in the future.

Outlook

Equity markets delivered near-record growth over the year with valuations recovering from the effects of COVID-19 as interest rates remain very low. However, the outlook for corporate earnings remains uncertain, as supportive government stimulus measures are unlikely to be repeated and underlying economic conditions remain variable. Cost inflation is also starting to percolate, and companies are facing disruption to their supply chains which may lead to rising costs for many companies. In this environment, it is our expectation that market volatility will increase over the coming 12 months.

In recent years we have increased the weighting of holdings in the portfolio that meet our definition of quality companies. In an economy where input costs may be rising, we believe the companies in the portfolio are generally well positioned given their market strength and ability to further leverage their efficiencies. Any pressure on valuations because of these conditions may result in purchases in more of our preferred companies at attractive prices. At present, we are looking to remain patient with our capital until these opportunities present themselves.

Please direct any enquiries to:

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26 July 2021

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($'000)
PEXA Group	50,000
Endeavour Group (demerger from Woolworths Group)	39,713
FINEOS Corporation (includes participation in placement at $4.26 per share)	30,981
ASX	28,444
Woolworths Group	28,184
Domino's Pizza Enterprises	24,743
Temple & Webster	24,547
Nanosonics	21,520

Disposals	Proceeds ($'000)
Qube Holdings	41,399
South 32#	35,848
National Australia Bank (because of the exercise of call options)	35,413
Alumina#	34,778
Brickworks#	32,698
Brambles	28,973
Oil Search	26,537

Complete disposal from the portfolio.

New Companies Added to the Portfolio

PEXA Group
Endeavour Group
FINEOS Corporation
Domino's Pizza Enterprises
Temple & Webster
Nanosonics
IDP Education

TOP 25 INVESTMENTS AS AT 30 JUNE 2021

Includes investments held in both the Investment and Trading Portfolios.

Valued at closing prices at 30 June 2021

		Total Value $ million	% of Portfolio
1	Commonwealth Bank of Australia	789.0	8.8%
2	BHP Group	651.5	7.3%
3	CSL	623.2	6.9%
4	Wesfarmers	435.7	4.9%
5	Westpac Banking Corporation	401.2	4.5%
6	Macquarie Group	345.2	3.8%
7	Transurban Group	339.6	3.8%
8	National Australia Bank	292.5	3.3%
9	Woolworths Group	244.6	2.7%
10	Australia and New Zealand Banking Group	238.9	2.7%
11	Rio Tinto	235.8	2.6%
12	Mainfreight	234.0	2.6%
13 *	James Hardie Industries	207.6	2.3%
14 *	Telstra Corporation	204.3	2.3%
15	Amcor	175.5	2.0%
16	Reece	170.0	1.9%
17	ARB Corporation	151.3	1.7%
18	Sydney Airport	148.3	1.7%
19	Sonic Healthcare	142.2	1.6%
20	Goodman Group	141.5	1.6%
21	ResMed	139.2	1.6%
22	Coles Group	120.8	1.3%
23	Seek	120.7	1.3%
24	Ramsay Health Care	120.5	1.3%
25	Carsales.com	119.6	1.3%
		6,792.9	
	As % of Total Portfolio Value (excludes Cash)	75.7%	

* Indicates options were written against part of the holding

Portfolio Performance to 30 June 2021

Performance Measures to 30 June 2021	1 Year	3 Years % PA	5 Years % PA	10 Years % PA
Portfolio Return – Net Asset Backing Return including dividends reinvested	***29.8%***	***10.5%***	***10.8%***	***9.0%***
S&P/ASX 200 Accumulation Index	27.8%	9.6%	11.2%	9.3%

Portfolio Return – Net Asset Backing Gross Return including dividends reinvested*	***31.9%***	***12.5%***	***12.8%***	***11.0%***
S&P/ASX 200 Gross Accumulation Index*	29.1%	11.0%	12.6%	10.8%

* 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 2021

FINANCIAL STATEMENTS

Consolidated Income Statement for the Year Ended 30 June 2021

	Note	2021 $'000	2020 $'000
Dividends and distributions	A3	257,874	257,858
Interest income from deposits	A3	116	1,554
Other revenue	A3	4,831	4,895
Total revenue		**262,821**	**264,307**
Net gains/(losses) on trading portfolio	A3	2,472	9,740
Income from operating activities		**265,293**	**274,047**
Finance costs		(1,831)	(1,047)
Administration expenses	B1	(15,509)	(14,759)
Profit before income tax expense		**247,953**	**258,241**
Income tax expense	B2, E2	(12,858)	(17,846)
Profit for the year		**235,095**	**240,395**
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company		234,651	239,931
Minority interest		444	464
		235,095	240,395
		Cents	**Cents**
Basic earnings per share	A5	19.28	19.88

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

Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2021

	Year to 30 June 2021			Year to 30 June 2020		
	Revenue[1]	**Capital[1]**	**Total**	Revenue[1]	Capital[1]	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Profit for the year	**235,095**	**-**	**235,095**	**240,395**	**-**	**240,395**
Other Comprehensive Income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	1,881,261	**1,881,261**	-	(568,806)	**(568,806)**
Tax on above	-	(575,865)	**(575,865)**	-	167,602	**167,602**
Total Other Comprehensive Income	-	**1,305,396**	**1,305,396**	-	**(401,204)**	**(401,204)**
Total Comprehensive Income	**235,095**	**1,305,396**	**1,540,491**	**240,395**	**(401,204)**	**(160,809)**

[1] 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'Revenue'. All other items, including expenses, are included in Profit for the year, which is categorised under 'Revenue'.

Total Comprehensive Income is attributable to :

	Year to 30 June 2021			Year to 30 June 2020		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Equity holders of Australian Foundation Investment Company Ltd	234,651	1,305,396	1,540,047	239,931	(401,204)	(161,273)
Minority Interests	444	-	444	464	-	464
	235,095	1,305,396	1,540,491	240,395	(401,204)	(160,809)

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

Consolidated Balance Sheet as at 30 June 2021

	Note	2021 $'000	2020 $'000
Current assets			
Cash	D1	97,122	111,318
Receivables		40,011	17,347
Trading portfolio		4,745	4,304
Total current assets		**141,878**	**132,969**
Non-current assets			
Investment portfolio	A2	8,973,080	7,117,970
Deferred tax assets		59	872
Total non-current assets		**8,973,139**	**7,118,842**
Total assets		**9,115,017**	**7,251,811**
Current liabilities			
Payables		1,020	884
Tax payable		12,621	30,771
Provisions		5,235	4,765
Total current liabilities		**18,876**	**36,420**
Non-current liabilities			
Provisions		888	1,375
Deferred tax liabilities – investment portfolio	B2	1,536,231	973,499
Total non-current liabilities		**1,537,119**	**974,874**
Total liabilities		**1,555,995**	**1,011,294**
Net Assets		**7,559,022**	**6,240,517**
Shareholders' equity			
Share capital	A1, D6	3,007,730	2,947,243
Revaluation reserve	A1, D3	3,394,297	2,166,030
Realised capital gains reserve	A1, D4	416,071	397,712
General reserve	A1	23,637	23,637
Retained profits	A1, D5	716,221	705,273
Parent entity interest		**7,557,956**	**6,239,895**
Minority interest		**1,066**	**622**
Total equity		**7,559,022**	**6,240,517**

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

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2021

Year Ended 30 June 2021	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		**2,947,243**	**2,166,030**	**397,712**	**23,637**	**705,273**	**6,239,895**	**622**	**6,240,517**
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)**
Total transactions with shareholders		**60,487**	**-**	**(58,770)**	**-**	**(223,703)**	**(221,986)**	**-**	**(221,986)**
Profit for the year		-	-	-	-	234,651	**234,651**	**444**	**235,095**
Other Comprehensive Income (net of tax)									
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	-	-	**-**	**-**	**-**
Total equity at the end of the year		**3,007,730**	**3,394,297**	**416,071**	**23,637**	**716,221**	**7,557,956**	**1,066**	**7,559,022**

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 2021 (continued)

Year Ended 30 June 2020	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		**2,888,136**	**2,561,314**	**462,257**	**23,637**	**688,244**	**6,623,588**	**1,158**	**6,624,746**
Dividends paid to shareholders	A4	-	-	(58,625)	-	(222,902)	**(281,527)**	**-**	**(281,527)**
- Dividend Reinvestment Plan	D6	59,249	-	-	-	-	**59,249**	**-**	**59,249**
Other share capital adjustments		(142)	-	-	-	-	**(142)**	**-**	**(142)**
Total transactions with shareholders		**59,107**	**-**	**(58,625)**	**-**	**(222,902)**	**(222,420)**	**-**	**(222,420)**
Profit for the year		-	-	-	-	239,931	**239,931**	**464**	**240,395**
Other Comprehensive Income (net of tax)									
Net losses for the period		-	(401,204)	-	-	-	**(401,204)**	**-**	**(401,204)**
Other Comprehensive Income for the year		-	(401,204)	-	-	-	**(401,204)**	**-**	**(401,204)**
Transfer to Realised Capital Gains of cumulative losses on investments sold		-	5,920	(5,920)	-	-	**-**	**-**	**-**
Dividend paid to minority interests by AICS		-	-	-	-	-	**-**	**(1,000)**	**(1,000)**
Total equity at the end of the year		**2,947,243**	**2,166,030**	**397,712**	**23,637**	**705,273**	**6,239,895**	**622**	**6,240,517**

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 2021

	Note	2021 $'000 Inflows/ (Outflows)	2020 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		14,776	39,663
Purchases for trading portfolio		(1,297)	(25,160)
Interest received		116	1,573
Dividends and distributions received		196,351	255,492
		209,946	271,568
Other receipts		4,878	5,095
Administration expenses		(15,445)	(14,403)
Finance costs paid		(1,831)	(1,047)
Taxes paid		(18,781)	(6,578)
Net cash inflow/(outflow) from operating activities	E1	**178,767**	**254,635**
Cash flows from investing activities			
Sales from investment portfolio		469,102	589,059
Purchases for investment portfolio		(416,321)	(694,841)
Taxes paid on capital gains		(23,798)	(20,394)
Net cash inflow/(outflow) from investing activities		**28,983**	**(126,176)**
Cash flows from financing activities			
Net bank borrowings		-	-
Share issue transaction costs		(145)	(142)
Dividends paid		(221,801)	(223,428)
Net cash inflow/(outflow) from financing activities		**(221,946)**	**(223,570)**
Net increase/(decrease) in cash held		(14,196)	(95,111)
Cash at the beginning of the year		111,318	206,429
Cash at the end of the year	D1	**97,122**	**111,318**

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:

	2021 $'000	2020 $'000
Share capital	3,007,730	2,947,243
Revaluation reserve	3,394,297	2,166,030
Realised capital gains reserve	416,071	397,712
General reserve	23,637	23,637
Retained profits	716,221	705,273
	7,557,956	**6,239,895**

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:

	2021 $'000	2020 $'000
Equity instruments (excluding below)	8,502,224	6,661,720
Equity instruments (over which options may be written)	423,249	456,250
Equity instruments (listed on non-Australian/NZ Exchanges)	47,607	-
	8,973,080	**7,117,970**

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 and the investment in Pexa which is also Level 2 as it did not start trading until 1 July 2021). 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 2021 and 30 June 2020 were as follows:

	30 June 2021	30 June 2020
Net tangible asset backing per share	**$**	**$**
Before tax	**7.45**	**5.96**
After tax	6.19	5.16

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, 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 $511.1 million (2020: $584.6 million) of equity securities were sold. The cumulative gain on the sale of securities was $77.1 million for the period after tax (2020: $5.9 million loss). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated statement of changes in equity). These sales were accounted for at the date of trade.

A3. Operating income

The total income received from AFIC's investments in 2021 is set out below.

Dividends and Distributions	2021 $'000	2020 $'000
Income from securities held in investment portfolio at 30 June	251,687	242,790
Income from investment securities sold during the year	5,976	15,068
Income from securities held in trading portfolio at 30 June	211	-
Income from trading securities sold during the year	-	-
	257,874	**257,858**

Interest income		
Revenue from deposits and cash management trusts	**116**	**1,554**
Other revenue		
Administration fees	4,831	4,853
Other income	-	42
	4,831	**4,895**

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		2021 $'000	2020 $'000
Net realised gains/(losses) from trading portfolio	– shares	149	1,038
	- options	1,724	8,428
Unrealised gains/(losses) from trading portfolio	- shares	897	243
	- options	(298)	31
		2,472	**9,740**

$152.3 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2020: $108.4 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 $44.5 million worth of securities at an agreed price – the 'exposure' (2020: $32.0 million). There were no put options in the portfolio at 30 June 2021 (2020 : $nil).

A4. Dividends paid

The dividends paid and payable for the year ended 30 June 2021 are shown below:

	2021 $'000	2020 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2020 of 14 cents fully franked at 30% paid 1 September 2020 (2020: 14 cents fully franked at 30% paid on 29 August 2019).	164,556	164,150
Interim dividend for the year ended 30 June 2021 of 10 cents per share fully franked at 30% paid 23 February 2021 (2020: 10 cents fully franked at 30% paid 24 February 2020)	117,917	117,377
	282,473	**281,527**
Dividends paid in cash	221,841	222,278
Dividends reinvested in shares	60,632	59,249
	282,473	**281,527**
Dividends forgone via DSSP	8,635	7,111
(b) Franking credits		
Opening balance of franking account at 1 July	174,053	182,607
Franking credits on dividends received	67,295	88,920
Tax paid during the year	41,428	26,234
Franking credits paid on ordinary dividends paid	(121,060)	(120,654)
Franking credits deducted on DSSP shares issued	(3,707)	(3,054)
Closing Balance of Franking Account	**158,009**	**174,053**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	19,610	33,803
Adjusted Closing Balance	**177,619**	**207,856**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(73,250)	(72,622)
Net available	**104,369**	**135,234**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	243,528	315,546

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	2021 $'000	2020 $'000
(Figures in A$ at year-end exchange rate : 2021 : $NZ1.074:$A1; 2020 : $NZ1.071:$A1)		
Opening balance	8,470	14,381
Imputation credits on dividends received	4,779	7,187
Imputation credits on dividends paid	-	(13,074)
Closing balance	**13,249**	**8,494**

There will be no NZ imputation credit attached to the proposed dividend payable on 31 August 2021.

(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 2021 to be paid on 31 August 2021, but not recognised as a liability at the end of the financial year is:

170,917

(e) Listed Investment Company capital gain account	2021 $'000	2020 $'000
Balance of the Listed Investment Company (LIC) capital gain account at 1 July:	62,912	63,335
Capital gains (incl LIC gains received from dividends)	39,651	58,202
LIC gains paid as part of dividend	(58,770)	(58,625)
Balance at 30 June	43,793	62,912
This equates to an attributable gain of:	62,562	89,874

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. $52.3 million attributable gain is attached to the final dividend to be paid on 31 August 2021.

A5. Earnings per share

The table below shows the earnings per share based on the profit for the year:	2021	2020
Basic Earnings per share	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator	1,217,056,577	1,206,707,394
	$'000	**$'000**
Profit for the year	234,651	239,931
	Cents	**Cents**
Basic earnings per share	19.28	19.88

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2021 $'000	2020 $'000
Rental expense relating to non-cancellable leases	(747)	(699)
Employee benefit expenses	(9,304)	(8,587)
Depreciation charge	-	-
Other administration expenses	(5,458)	(5,473)
	(15,509)	**(14,759)**

Employee benefit expenses

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

	Short-term $	Other Long Term $	Post-employment $	Share-based $	Total $
2021					
Non-executive Directors	749,363	-	54,867	-	804,230
Executives	3,191,746	(120,224)	99,524	526,834	3,697,880
Total	**3,941,109**	**(120,224)**	**154,391**	**526,834**	**4,502,110**
2020					
Non-executive Directors	716,550	-	63,450	-	780,000
Executives	2,755,048	(100,800)	98,858	166,650	2,919,756
Total	**3,471,598**	**(100,800)**	**162,308**	**166,650**	**3,699,756**

Detailed remuneration disclosures are provided in the Remuneration Report.

The above figures include share-based expenses incurred in respect of Ross Barker, former Managing Director, who was eligible for vesting under these plans during the year. This is the final year for which Mr Barker is eligible for awards under these plans.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services (”AICS”) – see Note F8) does not make loans to Directors or Executives.

B2. Tax

AFIC's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments and convertible notes that are classified as debt.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where AFIC disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Tax expense

The income tax expense for the period is shown below:

(a) Reconciliation of income tax expense to prima facie tax payable

	2021 $'000	2020 $'000
Profit before income tax expense	**247,953**	**258,241**
Tax at the Australian tax rate of 30% (2020: 30%)	74,386	77,472
Tax offset for franked dividends received	(47,106)	(61,344)
Demerger dividend non-taxable	(10,952)	-
Sundry items whose tax treatment differs from accounting treatment	(1,234)	4,171
	15,094	**20,299**
Over provision in prior years	(2,236)	(2,453)
Total tax expense	**12,858**	**17,846**

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.

	2021 $'000	2020 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	**1,536,231**	**973,499**
Opening balance at 1 July	973,499	1,163,749
Tax on realised gains	(13,133)	(22,648)
Charged to OCI for ordinary securities on gains or losses for the period	575,865	(167,602)
	1,536,231	**973,499**

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 $314.1 million and $628.1 million respectively, at a tax rate of 30% (2020: $249.1 million & $498.3 million).

AFIC seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee and risk can be managed by reducing exposure where necessary. AFIC does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

AFIC's total investment exposure by sector is as below:

	2021	2020
	%	%
Energy	1.96	3.01
Materials	14.32	15.76
Industrials	14.40	15.88
Consumer Discretionary	7.83	5.98
Consumer Staples	4.42	4.60
Banks	18.97	17.16
Other Financials	8.88	8.26
Real Estate	2.47	1.74
Telecommunications	5.99	4.42
Health Care	14.40	16.62
Info Technology	4.63	4.00
Utilities	0.66	1.03
Cash	1.07	1.54
Securities representing over 5% of the investment portfolio at 30 June were		
Commonwealth Bank	8.8	7.7
BHP	7.3	7.0
CSL	6.9	8.5

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 (0.5%) part of the total portfolio.

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. 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 2021	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	1,020	-	-	1,020	1,020
	1,020	**-**	**-**	**1,020**	**1,020**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-

30 June 2020	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	884	-	-	884	884
	884	**-**	**-**	**884**	**884**
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 2021.

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

	2021 $'000	2020 $'000
Cash at bank and in hand (including on-call)	97,122	111,318
	97,122	**111,318**

Cash holdings yielded an average floating interest rate of 0.14% (2020: 1.02%). 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

	2021 $'000	2020 $'000
Commonwealth Bank of Australia – cash advance facilities	50,000	250,000
Amount drawn down	-	-
Undrawn facilities	**50,000**	**250,000**

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are usually drawn down for no more than three months.

After 30th June 2021, additional facilities have been written with Commonwealth Bank for an additional $60 million.

During the previous year, the Group had an additional facility available of $120 million in order to take advantage of any potential opportunities that may have arisen due to the circumstances surrounding COVID-19 and the responses to it. This facility was not renewed during the current year.

D3. Revaluation reserve

	2021 $'000	2020 $'000
Opening balance at 1 July	2,166,030	2,561,314
Gains/(losses) on investment portfolio		
- Equity Instruments	1,881,261	(568,806)
Provision for tax on above	(575,865)	167,602
Cumulative taxable realised (gains)/losses (net of tax)	(77,129)	5,920
	3,394,297	**2,166,030**

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	397,712	462,257
Dividends paid	(58,770)	(58,625)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	77,129	(5,920)
	416,071	**397,712**

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	705,273	688,244
Dividends paid	(223,703)	(222,902)
Profit for the year	234,651	239,931
	716,221	**705,273**

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
1/07/2019	Balance		1,200,148		2,888,136
29/08/2019	Dividend Reinvestment Plan	**i**	5,541	6.21	34,407
29/08/2019	Dividend Substitution Share Plan	**ii**	622	6.21	n/a
24/02/2020	Dividend Reinvestment Plan	**i**	3,585	6.93	24,842
24/02/2020	Dividend Substitution Share Plan	**ii**	468	6.93	n/a
Various	Costs of issue		-	-	(142)
30/06/2020	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**

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 & Chi-X in the five days after the shares begin trading on an ex-dividend basis.

ii. The Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forgo a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

iii. The Group has an on-market share buy-back programme. During the financial year, no shares were bought back (2020: 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

	2021 $'000	2020 $'000
Profit for the year	**235,095**	**240,395**
Net decrease/(increase) in trading portfolio	(441)	(11,337)
Dividends received as securities under DRP investments	-	(8,355)
Demerger dividend – non-cash item	(36,505)	-
Decrease/(increase) in current receivables	(22,664)	22,781
- Less increase/(decrease) in receivables for investment portfolio	9,875	-
Increase/(decrease) in deferred tax liabilities	563,545	(191,222)
- Less (increase)/decrease in deferred tax liability on investment portfolio	(562,732)	190,250
Increase/(decrease) in current payables	136	(48)
- Less increase/(decrease) in dividends payable	(40)	151
Increase/(decrease) in provision for tax payable	(18,150)	13,719
Capital gains tax charge taken through equity	(13,133)	(22,648)
Prior year taxes paid relating to capital gains	23,798	20,394
Increase/(decrease) in other provisions/non-cash items	(17)	555
Net cash flows from operating activities	**178,767**	**254,635**

E2. Tax reconciliations

Tax expense composition

Charge for tax payable relating to the current year	14,281	21,271
Over provision in prior years	(2,236)	(2,453)
(Increase)/Decrease in deferred tax assets	813	(972)
	12,858	**17,846**

Amounts recognised directly through Other Comprehensive Income

Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	575,865	(167,602)
	575,865	**(167,602)**

Deferred tax assets & liabilities

The deferred tax balances are attributable to:

		2021 $'000	2020 $'000
(a)	Tax on unrealised gains or losses in the trading portfolio	(253)	(82)
(b)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,851	1,849
(c)	Interest and dividend income receivable which is not assessable for tax until receipt	(1,539)	(895)
		59	**872**

Movements:

Opening balance at 1 July	872	(100)
Credited/(charged) to Income statement	(813)	972
	59	**872**

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect AFIC's ability to claim the deduction.

F. Further information

This section covers information that is not directly related to specific line items in the financial statements, including information about related party transactions, share-based payments, assets pledged as security and other statutory information.

F1. Related parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

(a) Arrangements with non-executive directors

Non-Executive Directors R Barker (who retired on 30 June 2021), J Paterson and C Walter have rented office space and, for R Barker and J Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was $62,608 (2020: $62,565).

(b) AICS transactions with minority interests

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

	2021 $'000	2020 $'000
Administration expenses charged for the year	2,528	2,634

(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	1,467	1,454
Administration expenses charged for the year to AMCIL Ltd	916	839

F2. Remuneration of auditors

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

	2021 $	2020 $
PricewaterhouseCoopers		
Audit Services		
Audit or review of financial reports	210,050	202,815
Audit related Services		
AFSL compliance audit and review	8,331	8,168
Permitted Non-Audit Services		
Preparation and lodgement of tax returns	32,940	32,293
Total remuneration	**251,321**	**243,276**

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 2 investments comprising more than 10% of AFIC's income , including realised income from the trading and options written portfolios – Woolworths (16.1% as a result of the demerger dividend received in conjunction with the Endeavour Group demerger) and BHP (11.0%) (2020 2 investments : Commonwealth Bank (12.4%) and BHP (10.5%)).

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 2021 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 2021 ("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. 17,763 shares vested during the year ended 30 June 2021.

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 50% of the after-tax amount being used by the executive to purchase shares. All remuneration under the plan, is paid in the financial year following the year of assessment.

The executive agrees to the shares being subject to being held for 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.

21,736 shares for both LTIP and Annual Incentive (2020: 12,565 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $149,306 (2020: $81,835).

(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.

67,777 rights were awarded under the plan during the year ended 30 June 2021 (2020: 65,198). An expense of $826,722 (2020: $462,267) was incurred for the 2017/18, 2018/19, 2019/20 and 2020/21 plans. 51,941 rights under the 2016/17 plan were forfeited during the year (74.5%).

(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, 28% of the possible maximum was awarded, and 50% of this was used to buy shares in AMCIL 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:

	2021	**2020**
	$'000	**$'000**
Share-based payment expense	879	507

(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 F9 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**	
			2021	**2020**
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. Parent Entity Financial Information

Summary financial information

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

	2021 $'000	2020 $'000
Balance sheet		
Current assets	133,183	125,705
Total assets	**9,106,106**	**7,243,674**
Current liabilities	13,271	30,965
Total liabilities	**1,551,348**	**1,005,486**
Shareholders' equity		
Issued capital	3,007,730	2,947,243
Reserves		
Revaluation reserve	3,394,297	2,166,030
Realised capital gains reserve	416,071	397,712
General reserve	23,637	23,637
Retained earnings	713,023	703,566
	4,547,028	**3,290,945**
Total shareholders' equity	**7,554,758**	**6,238,188**
Profit or loss for the year	**233,319**	**238,539**
Total comprehensive income	**1,538,715**	**(162,665)**