Australian Foundation

INVESTMENT COMPANY

ABN 56 004 147 120

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2007

CONTENTS

- Results for announcement to the market
- Media Release
- Appendix 4E Accounts
- Independent Audit Report

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2007 with the corresponding period being the year ended 30 June 2006.

Results for announcement to the market

- Revenue from operating activities was $223.0 million, 18% up from the prior year.
- Operating profit after tax was $224.4 million, 24.9% up from the prior year.
- Net profit (including capital gains) was $259.3 million, 21.1% up from the prior year.
- The interim dividend of 8 cents per share was paid to shareholders on 8 March 2007.
- Net tangible assets per share as at 30 June 2007, before allowing for the final dividend, were $6.02 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2006: $4.82). After this provision, the figure was $4.96 (2006 : $4.09).
- A fully-franked final dividend of 13 cents per share will be paid on 22 August 2007 to shareholders on the register on 8 August 2007. The shares are expected to trade ex-dividend on 1 August 2007. The final dividend carries with it an attributable LIC capital gain of 2.5 cents.
- The total dividend for the financial year is therefore 21 cents, fully-franked, compared with 17 cents, also fully-franked, for the previous financial year.
- A Dividend Reinvestment Plan (DRP) is available, the price for which will be set by the Volume Weighted Average Price of the Company’s shares traded on the ASX over the five trading days after the shares trade ex-dividend. The last day for notice of participation in the DRP is the record date, being 8 August 2007.

Australian Foundation
INVESTMENT COMPANY

MEDIA RELEASE - FULL YEAR RESULT

25 July 2007

OPERATING PROFIT OVER $224 MILLION, DIVIDEND INCREASES 23%

Australian Foundation Investment Company today announced its financial results for the full year to 30 June 2007.

KEY POINTS

- **Net Operating Profit after tax** was $224.4 million (last year $179.6), up 24.9%.
- **Profit after tax** which includes realised gains was $259.3 million (last year $214.1).
- **Earnings per share** based on Net Operating Profit were 23.7 cents, an increase of 22.0% over 19.4 cents last year.
- **A fully franked final dividend** of 13 cents per share will be paid on 22 August 2007. This brings total dividends for the year to 21 cents per share, up 23.5% from 17 cents last year.
- **The final dividend** carries with it an attributable LIC capital gain of 2.5 cents per share which enables some shareholders to claim a tax deduction.
- **Total portfolio return** over the twelve month period (measured by change in net asset backing per share plus dividend reinvested) was an increase of 29.3%.
- **Total shareholder return** measured by the change in share price plus reinvested dividend over the financial year was up 25.3%
- **Net asset backing** at 30 June 2007 was $6.02 (before allowing for the 13 cent final dividend).
- **Management expense ratio** was 0.13% (net of administration fees recovered from other Investment Companies)
- **Total portfolio** (including cash and bank bills) at 30 June 2007 was $5.81 billion.

Chairman's Comments

The Chairman, Mr Bruce Teele commented "With another year of substantial gains, it has been an extraordinary period for equity markets over the past 4 years, one that is virtually unprecedented in my time in the market.

Total portfolio return for AFIC over the twelve month period (measured by change in net asset backing per share plus dividend reinvested) was an increase of 29.3%.

The Net Operating Profit after tax performance was also very satisfying as the Company continued to enjoy a strong flow of fully franked dividends (including special dividends) which were up 13.6% to $165.3 million. Unfranked dividends were also up strongly to $25.3 million (of which $11.4 million was as the result of Asciano's demerger from Toll Holdings).

The impetus from continuing economic development in China and other emerging economies has provided significant stimulus to the Australian economy through development of our significant reserves of natural resources and long term improvement in the terms of trade. This has had a pervasive effect across the broad economy providing the backdrop for strong levels of business investment, low levels of unemployment and a resilient consumer, despite relatively higher interest rates and subdued housing sector.

In this environment corporate profits remained strong with balance sheets in as good as a position as we have seen them for many years. An interesting by-product of this strength and the relatively low real cost of debt has been the recent surge in takeovers and private equity activity.

A number of companies in AFIC's Investment Portfolio are currently subject to corporate action which may mean a realisation of significant gains in the early part of this financial year. These include large holdings in the Coles Group, Southern Cross Broadcasting, Smorgon Steel Group and Alinta. Our holding in Rinker has been disposed of during July 2007 following CEMEX reaching the compulsory acquisition threshold.

This activity caused us to write to shareholders recently on the challenges and issues such bids have for a long term investor such as AFIC. The short term focus of the market we believe undervalues the irreplaceable long term strategic value of companies and the impact of tax on selling shares, particularly when trying to find suitable alternative investments to produce equivalent returns.

Outlook

The positive conditions that have been driving strong returns in equity markets do not appear likely to change significantly. However, market sentiment can be affected by volatility in the short term.

In our opinion, whilst valuations in general look high, they do not appear excessive. It is interesting to note that the returns from the large cap sector of the market have continued to lag behind the small to mid cap sector of the market which have in part benefited from strong profit rises and a general re rating of price earnings ratios. This underperformance by the larger companies potentially provides further investment opportunities for AFIC. We entered the new financial year fully invested, with capacity to borrow if we see any attractive opportunities emerge".

Investment Portfolio

The major investments in the Investment Portfolio during the period were Rio Tinto, BHP Billiton and Telstra through the T3 offering of Instalment Receipts (as a result of our entitlement as Telstra shareholders). A number of others changes occurred within the portfolio as a result of corporate activity. In particular, large changes occurred as a result of the demerger of Asciano Group from Toll Holdings, Suncorp Metway's takeover of Promina Group and Fairfax Media's takeover of Rural Press.

New additions to the Investment Portfolio include :

- ASG Group, a provider of computer infrastructure and other specialist technical services.
- Equity Trustees, a specialist financial services company
- Oakton, an IT services company
- Queensland Gas, focused on becoming an integrated energy supplier in Australia based on coal seam gas resources.

Trading Portfolio

The Trading Portfolio delivered an increased return over the twelve months to 30 June 2007 of $30.5 million, up from $10.7 million over the corresponding period last year. The trading portfolio represented just under 3% of the total portfolio during the year. The Trading Portfolio benefited from the general movement up in prices across a number of holdings in the portfolio with the substantial improvements in the share prices of Telstra, BHP Billiton, Queensland Gas and Rinker over the period.

Investment Team and Australian Investment Company Services Limited

In February 2007, an investment team was appointed to undertake investment research and dealing activities to support the Company's Investment Committee and those of the other listed investment companies Djerriwarrh Investments, Mirrabooka Investments and AMCIL Limited.

The investment team is employed by a subsidiary, Australian Investment Company Services Limited, along with the in-house team providing administration and support services to AFIC.

Please direct any enquiries to:

Bruce Teele	Ross Barker	Geoff Driver
Chairman	Managing Director	General Manager
(03) 9679 1361	(03) 9924 0380	(03) 9679 1659

TOP 25 INVESTMENTS AS AT 30 JUNE 2007

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 29 June 2007

			Total Value $ million
*	1	BHP Billiton	496.4
*	2	Commonwealth Bank of Australia	432.0
	3	Westpac Banking Corporation	314.8
*	4	National Australia Bank	281.2
*	5	Rio Tinto	250.9
*	6	Wesfarmers	226.2
*	7	Telstra Corporation (a)	201.6
	8	Woolworths	167.5
	9	Coles Group	158.8
	10	Australia and New Zealand Banking Group	141.4
	11	Rinker Group	123.6
*	12	Toll Holdings	117.9
	13	West Australian Newspapers Holdings	105.1
*	14	Alumina	102.4
	15	Woodside Petroleum	100.7
*	16	AMP	93.4
	17	Computershare	92.1
	18	St George Bank	90.1
*	19	Asciano Group	85.3
*	20	Westfield Group	80.4
*	21	Suncorp-Metway	79.7
	22	QBE Insurance Group	78.6
*	23	Amcor	77.7
*	24	Brambles	73.4
	25	Transurban Group	70.4
		Total	**4,041.4**
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	69.7%

* Indicates that options were outstanding against part or all of the holding in the Trading Portfolio

(a) Includes $52.0 million of TLSCA instalment receipts

CONCISE FINANCIAL STATEMENTS

The concise financial report is an extract from the full financial report for the year ended 30 June 2007. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Australian Foundation Investment Company Ltd and its subsidiary as the full financial report. However, the only difference between the Concise Financial Report and the full Financial Report is that the Concise does not include the separate results of the Parent. All other notes and disclosures are identical. Further financial information about the separate results of the parent company can be obtained from the full financial report.

The full financial report will be sent to shareholders on request, free of charge. Shareholders should call +61 (0) 3 9650 9911 and a copy will be sent. Alternatively, both the full financial report and the Annual Report, which includes the concise report, will be available at www.afi.com.au

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000
Dividends and distributions		220,549	186,882
Revenue from deposits and bank bills		787	817
Other revenue		1,665	1,249
Total revenue		**223,001**	**188,948**
Net gains on trading portfolio		30,498	10,737
Income from operating activities before net gains on investments		**253,499**	**199,685**
Finance costs		(5,076)	(2,218)
Administration expenses		(7,937)	(6,254)
Operating profit before income tax expense and net gains on investments	**4**	**240,486**	**191,213**
Income tax expense*	**5**	(16,088)	(11,569)
Net operating profit before net gains on investments		**224,398**	**179,644**
Net gains/(losses) on investments			
Net gains on Ordinary Securities sold from the investment portfolio		34,862	46,297
Net gains/(losses) on Other Securities		2,634	(2,813)
Tax expense on net gains on investments*	**5**	(2,553)	(9,061)
		34,943	34,423
Profit for the year		**259,341**	**214,067**
		Cents	**Cents**
Basic earnings per share		27.38	23.14
Diluted earnings per share		27.38	23.14

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

Information on earnings per share, including net operating profit before net gains on investments per share, can be found in Note 24.

	Consolidated 2007 $'000	Consolidated 2006 $'000
***** Total tax expense	18,641	20,630

Balance Sheet as at 30 June 2007

	Note	Consolidated 2007 $'000	2006 $'000
Current assets			
Cash	**6**	9,796	738
Receivables	**7**	37,792	41,548
Trading portfolio	**8**	129,482	101,824
Interest-rate Hedging Contracts	**20**	1,002	186
Total current assets		**178,072**	**144,296**
Non-current assets			
Fixtures & fittings	**9**	816	899
Investment portfolio	**10**	5,671,726	4,411,045
Total non-current assets		**5,672,542**	**4,411,944**
Total assets		**5,850,614**	**4,556,240**
Current liabilities			
Payables	**11**	10,965	4,107
Tax payable		11,050	14,557
Borrowings	**6**	50,000	41,000
Provisions	**12**	794	502
Total current liabilities		**72,809**	**60,166**
Non-current liabilities			
Provisions	**13**	134	83
Deferred tax liabilities - investment portfolio	**14**	1,012,930	682,048
Deferred tax liabilities - other	**15**	5,020	1,015
Total non-current liabilities		**1,018,084**	**683,146**
Total liabilities		**1,090,893**	**743,312**
Net Assets		**4,759,721**	**3,812,928**
Shareholders' equity			
Share Capital	**16**	1,638,948	1,501,656
Revaluation Reserve	**17**	2,530,231	1,806,548
Realised Capital Gains Reserve	**18**	271,883	243,400
General Reserve	**19**	23,637	23,637
Interest-rate Hedging Reserve	**20**	1,002	186
Retained Profits	**21**	294,020	237,501
Total shareholders' equity		**4,759,721**	**3,812,928**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $'000	2006 $'000
Total equity at the beginning of the year		**3,812,928**	**3,273,219**
Dividends paid	**23**	(174,339)	(151,437)
Shares issued			
- Dividend Reinvestment Plan	**23**	40,077	35,882
- Share Acquisition Plan	**16**	97,979	66,949
On-market share buy-backs	**16**	(26)	(13,000)
Other Share Capital Adjustments	**16**	(738)	(312)
Total transactions with shareholders		**(37,047)**	**(61,918)**
Revaluation of investment portfolio		1,057,464	561,711
Provision for tax on unrealised gains		(333,781)	(174,337)
Net unrealised gains recognised directly in equity	**17**	723,683	387,374
Profit for the year		259,341	214,067
Net movement in fair value for interest rate swaps	**20**	816	186
Total recognised income (including unrealised gains) & expense for the year		**983,840**	**601,627**
Total equity at the end of the financial year		**4,759,721**	**3,812,928**

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $'000 INFLOWS/ (OUTFLOWS)	2006 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		108,152	75,279
Purchases for trading portfolio		(100,108)	(50,797)
Interest received		4,620	5,975
Dividends and distributions received		208,295	163,836
		220,959	194,293
Other receipts		1,652	1,249
Administration expenses		(7,032)	(6,280)
Finance costs paid		(5,653)	(2,156)
Income taxes paid		(20,908)	(15,637)
Net cash inflow/(outflow) from operating activities	**29**	**189,018**	**171,469**
Cash flows from investing activities			
Sales from investment portfolio		131,295	161,355
Purchases for investment portfolio		(283,663)	(319,674)
Payment for fixed assets		(19)	(932)
Net cash inflow/(outflow) from investing activities		**(152,387)**	**(159,251)**
Cash flows from financing activities			
Proceeds from borrowings		617,000	208,500
Repayment of borrowings		(608,000)	(184,500)
Share issues		97,979	66,949
Share issues transaction costs		(342)	(219)
Payment for shares bought back		(26)	(13,000)
Dividends paid		(134,184)	(115,432)
Net cash inflow/(outflow) from financing activities		**(27,573)**	**(37,702)**
Net increase/(decrease) in cash held		9,058	(25,484)
Cash at the beginning of year		738	26,222
Cash at the end of year	**6**	**9,796**	**738**

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

1. Summary of significant accounting policies

This concise financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. This financial report has been authorised for issue as per the Directors Declaration and is presented in the Australian currency. The Company has the power to amend and reissue the financial report.

In this report, "Group" refers to the consolidated entity and "Company" refers to the parent entity, Australian Foundation Investment Company Ltd.

The Group 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

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS). The Group has elected to adopt AASB 7 *Financial Instruments: Disclosures* early when preparing the financial statements. The Group has not yet applied any other Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2007 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

a) Basis of accounting

The financial statements are prepared using the valuation methods described below for holdings of securities, including options. All other items have been treated in accordance with the historical cost convention.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company's subsidiary, Australian Investment Company Services Ltd ("AICS") as at 30 June 2007 (formerly known as Australian Investment Companies Group Ltd, or AICG), and its results for the year then ended. AICS has been a wholly-owned subsidiary of the Company since the beginning of the year and is fully consolidated. It did not trade in the previous year. No other subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

c) Holdings of securities

(i) Balance sheet classification

The Group has two discrete portfolios of securities, the investment portfolio and the trading portfolio. The purchase and the sale of securities are accounted for at the date of trade.

The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts that are entered into, as described in Note 8.

Ordinary securities within the investment portfolio are classified as 'assets available for sale', whereas securities that contain a derivative element (eg Convertible Notes) and the trading portfolio are classified as 'assets measured at fair value through the Income Statement'.

(ii) Valuation of investment portfolio

Securities, including listed and unlisted shares and notes, are initially brought to account at market value, which is the cost of acquisition including transaction costs, and are revalued to market values continuously. Increments and decrements on Ordinary Securities are taken to the Revaluation Reserve.

Where disposal of an investment occurs any revaluation increment or decrement relating to it is transferred from the Revaluation Reserve to the Income Statement.

Increments and decrements on the value of the securities that contain a derivative element (known as 'Hybrids') are taken directly through the Income Statement.

(iii) Valuation of trading portfolio

Securities, including listed and unlisted shares, notes and options, are initially brought to account at market value, which is the cost of acquisition, or proceeds in the case of options written, and are revalued to market values continuously.

Increments and decrements on the value of securities in the trading portfolio are taken directly through the Income Statement.

(iv) Income from holdings of securities

Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis and distributions relating to unlisted securities are recognised as income when received. If the distributions are capital returns on ordinary shares the amount of the distribution is treated as an adjustment to the carrying value of the shares.

The realised gain or loss on options written is not recognised until the option expires, is exercised or is closed out. All unrealised gains or losses which represent movements in the Market Value of the options are recognised through the Income Statement.

d) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income adjusted by any unused tax losses and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are offset as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

No taxation charge is taken through the Income Statement for transactions or distributions that have a tax deferred status. This includes where scrip-for-scrip rollover relief is elected for realised gains, tax-deferred distributions from trusts and on the conversion of convertible securities to ordinary shares. In all cases, the tax charge is taken through the revaluation reserve on the relevant underlying securities and in most cases becomes payable when those securities are sold.

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Income Statement – i.e. hybrids and the trading portfolio.

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

e) Cash flows

For the purpose of the cash flow statement, 'cash' includes cash, deposits held at call, investment grade promissory notes and discounted bills of exchange.

f) Bills of exchange

Bills of exchange and investment grade promissory notes, which have been purchased in the market at a discount to face value, are carried at an amount representing amortised cost using the effective interest rate method, and the amortised interest is accounted for as interest received.

g) Fair value of financial assets and liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Group approximates their carrying value.

The fair value for assets that are actively traded on market is defined by AASB 139 as 'last bid price'.

h) 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 Short Term 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.

(iv) Share incentives

Share incentives are provided under the Executive Short Term and Long Term Incentive plans and the Employee Share Acquisition Scheme.

Shares were also provided to members of the Investment team who joined the Group during the year in lieu of benefits foregone.

For the Employee Share Acquisition Scheme and the Executive Short Term Incentive plan, the incentives are based on the performance of the individual and the Group for the financial year. The Employee Share Acquisition Scheme and a portion of the Executive Short Term Incentive are settled in shares, but based on a cash amount. A provision for the amount payable under the Short Term Incentive plan is recognised on the Balance Sheet.

The amount awarded to the Investment team as Short Term Incentive for the year ended 30 June 2007 was fixed as part of their employment agreement.

Shares acquired to satisfy obligations under the Executive Long Term Incentive plan are recognised as an adjustment against share capital (referred to as "ELTIP shares adjustment") as at the date of acquisition by the Group. Between the award date and the vesting date, the fair value of the ELTIP shares is expensed over the relevant period of service for each executive, and recognised in equity in the ELTIP shares adjustment account. In the event that the executive does not complete the period of service, the cumulative expense is reversed. The fair value of the shares is determined at the award date and is based on:

- the market price of the shares at award date;
- allowance for the impact of the holding restriction between award date and vesting date; and
- the expected performance of the Group in meeting the market hurdles which determine vesting.

Any shares that do not ultimately vest are cancelled by offsetting the relevant component of the ELTIP shares adjustment account against share capital. The reduction in share capital is based on that proportion of the original acquisition cost of share compensation that did not vest. Any residual element in the ELTIP shares adjustment account for the relevant award year is transferred to retained earnings.

i) 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.

j) 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.

k) 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.

l) Interest rate swap

The Company has hedged a proportion of its short term borrowings against changes in interest rates by entering into interest rate swap agreements. Interest-rate swaps are shown at 'fair value' on the Balance Sheet representing the cost of unwinding the swap. For that portion of the Company's swap agreements that are effective hedges (which is 100%), the fair value of the unused portion of the swap agreement is recognised in equity. Otherwise the fair value is recognised in Net Profit.

Accumulated amounts in equity are recycled in the income statement as the interest on the borrowings becomes due and payable and the hedge is used. The amount recognised is accounted for as finance costs during the period along with the interest on the borrowings. The net amount receivable or payable under interest rate swap agreements is also recognised at this time and is included in 'other receivables' or 'other payables' at each balance date.

m) Plant and equipment

Plant and equipment represents the costs of furniture and fittings plus expenses incurred in entering the lease. It is depreciated over the initial period of the lease plus a committed extension.

n) Rounding of amounts

The Group is of the kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment Commission, relating to the ‘rounding off’ of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

2. Critical Accounting Estimates and Judgements

The preparation of financial reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Group’s accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for Capital Gains Tax (CGT) on the unrealised gain in the Investment Portfolio at current tax rates.

As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 14. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

3. Financial Reporting by segments

The Group operates as a Listed Investment Company in Australia. It has no reportable business or geographic segments.

4. Operating profit before income tax expense and net gains on investments

	2007 $’000	2006 $’000
Dividends and distributions		
• securities held in investment portfolio	211,941	177,135
• securities held in trading portfolio	4,761	4,598
	216,702	181,733
Interest income		
• securities held in investment portfolio	3,847	5,149
• deposits and income from bank bills	787	817
	4,634	5,966
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	9,025	4,943
• unrealised gains/(losses) in trading portfolio	21,473	5,794
	30,498	10,737
Administration fees	1,446	1,212
Other income	219	37
	1,665	1,249
Income from operating activities before net gains on investments	**253,499**	**199,685**
Finance costs	(5,076)	(2,218)
Rental expense relating to non-cancellable operating leases	(437)	(244)

	2007 $'000	2006 $'000
Employee benefits expense	(3,481)	(2,447)
Depreciation charge	(102)	(33)
Other administration expenses	(3,917)	(3,530)
Operating profit before income tax expense and net gains on investments	**240,486**	**191,213**

Further information relating to remuneration of auditors is set out in Note 28, Directors and Executives in Note 25.

5. Tax expense

Operating profit before income tax expense and net gains on investments	**240,486**	**191,213**
Tax at the Australian tax rate of 30% (2006 – 30%)	72,146	57,364
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :		
Tax offset for franked dividends	(48,920)	(43,680)
Non-taxable distributions	(3,518)	(892)
Sundry items	(978)	67
	18,730	**12,859**
Under (over) provision in prior years	(2,642)	(1,290)
Income tax expense on operating profit before net gains on investments	**16,088**	**11,569**
Net gains on investments	**37,496**	**43,484**
Tax at the Australian tax rate of 30% (2006 – 30%)	11,249	13,045
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Differences between accounting and tax cost bases for capital gains purposes	206	645
Accounting gains rolled-over for taxation purposes	(8,902)	(4,629)
Tax expense on net gains on investment portfolio	**2,553**	**9,061**
Total tax expense	**18,641**	**20,630**

(b) Tax expense composition

Charge for tax payable relating to the current year	20,177	23,648
Under (over) provision in prior years	(2,642)	(1,290)
Increase (decrease) in deferred tax liabilities – investment portfolio	(2,899)	(181)
Increase (decrease) in deferred tax liabilities - other	4,005	(1,547)
	18,641	**20,630**

(c) Amounts recognised directly in equity

Increase (decrease) in deferred tax liabilities relating to capital gains tax on the increase in unrealised gains on Ordinary Securities in the investment portfolio	333,781	174,337
	333,781	**174,337**

	2007 $'000	2006 $'000
6. Current assets – cash		
Cash at bank and in hand	55	4
Deposits at call	9,741	734
	9,796	738

Deposits at call yield an average floating interest rate of 6.16% (2006: 5.48%). Discounted bills of exchange and investment grade promissory notes yielded an average fixed return of 6.28% (2006: 5.62%) and had a fixed term of up to three months.

(a) Credit risk exposure

All cash investments not held in a transactional account are invested in the Goldman Sachs JB Were Australian $ Cash Reserves Fund. This fund is research rated AAAm by Standard & Poor's and has also been given a Fund Rating of 5 stars, the highest possible, and is rated Aaa/MR1+ by Moody's.

The credit risk exposure of the Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest. Purchased bills of exchange were carried on the balance sheet at an amount less than the amount realisable at maturity. The credit risk exposure of the Group regarding purchased bills of exchange was the carrying value, which comprises the cost of the bank bills and the income accrued to balance date.

Previously, the management of cash investments was outsourced. Under the terms of this outsourcing, funds could only be invested in short-term debt where the issuer has a Standard & Poor's short-term rating of A1+ (for Banks, A1+, A1 or A2) or Government or semi-Government issuers. The average weighted maturity of the portfolio invested in was no greater than 90 days.

(b) Standby arrangements and credit facilities

The Group is party to agreements under which Commonwealth Bank of Australia will extend a cash advance facility (formerly the Group had an agreement to accept or accept and discount bills of exchange) and the National Australia Bank has agreed to accept or accept and discount bills of exchange.

	2007 $'000	2006 $'000
Commonwealth Bank of Australia – cash advance facility (2006: floating rate bill facility)	150,000	150,000
Amount drawn down	50,000	41,000
Undrawn facilities	100,000	109,000
National Australia Bank- floating rate bill facility	50,000	50,000
Amount drawn down	-	-
Undrawn facilities	50,000	50,000
Total short-term loan facilities	200,000	200,000
Total drawn down	50,000	41,000
Total undrawn facilities	150,000	159,000

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 drawn down for no more than 90 days.

7. Current assets – receivables

	2007 $'000	2006 $'000
Dividends and distributions receivable	31,896	30,292
Interest receivable/pre-paid	624	208
Outstanding settlements – Investment portfolio	4,036	5,232
Outstanding settlements – Trading portfolio	1,089	5,816
Other receivables/pre-payments	147	-
	37,792	41,548

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

The credit risk exposure of the Group in relation to receivables is the carrying amount.

8. Current assets – trading portfolio

Listed securities at market value		
- shares and trust units	134,115	106,457
- Options sold by the Group		
• Calls	(4,527)	(4,528)
• Puts	(106)	(105)
	129,482	101,824

The total of the trading portfolio and hybrids, measured at fair value through the income statement, is $173.7 million (2006 : $171.4 million).

(a) Credit risk exposure

Credit risk exposures of the Group arise in relation to converting and convertible notes and other interest-bearing securities to the extent of their carrying values, in the event of a shortfall on winding-up of the issuing companies.

Credit risk exposure also arises in relation to options bought by the Group, if any, to the extent of their carrying value.

(b) Options sold

The Group enters into option contracts in the trading portfolio as part of its trading activities to generate profits on dealing in securities. Where the Group sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Group sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option.

As at balance date the Group had sold put options which at the option of the purchaser may require the Group to buy prior to the respective expiry dates if they were exercised, certain securities at prices which in aggregate totalled $8.1 million (2006: $3.9 million). As at balance date there were call options outstanding which potentially required the Group if they were exercised to deliver securities to the value of $67.5 million (2006: $77.1 million) held by the Group in its trading portfolio.

As at balance date all of these contracts are exchange-traded options and are entered into within the constraints and controls imposed by the Australian Securities Exchange Limited. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily. The Investment Committee meets regularly (normally weekly) to consider, review and approve the investment, trading and sub-underwriting transactions of the Group and related matters.

$35.2 million of shares are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Group (2006: $23.7 million). These shares are held by ACH under the terms of ACH 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.

9. Non-current assets – fixtures & fittings

	2007 $'000	2006 $'000
Opening Balance	899	-
Additions	19	932
Depreciation charge	(102)	(33)
Book cost of furniture and fittings, plus leasehold expenses	816	899

10. Non-current assets – investment portfolio

Listed securities		
- shares at market value	5,627,479	4,341,375
- converting and convertible notes and other interest bearing securities at market value	44,247	69,620
Unlisted securities at fair value	-	50
	5,671,726	4,411,045

Credit risk exposures of the Group arise in relation to converting and convertible notes to the extent of their carrying values in the event of a shortfall on winding-up of the issuing companies.

Excluding the hybrids, the total is $5,627.5 million (2006: $4,341.4 million).

11. Current liabilities - payables

Dividends payable	522	445
Outstanding settlements – Investment portfolio	7,803	374
Outstanding settlements – Trading portfolio	1,011	2,468
Directors' retirement benefits	681	681
Other payables	948	139
	10,965	4,107

Payables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

12. Current liabilities – provisions

	2007 $'000	2006 $'000
Employee entitlements	794	502
	794	502

13. Non-current liabilities – provisions

Employee entitlements	134	83
	134	83

14. Deferred tax liabilities – investment portfolio

	2007 $'000	2006 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	1,012,930	682,048

Movements:	**2007 $'000**	**2006 $'000**
Opening balance at 1 July	682,048	507,892
(Credited)/charged to Income Statement for securities that contain a derivative element (eg Convertible Notes)	(2,899)	(181)
(Credited)/charged to equity for ordinary securities	333,781	174,337
	1,012,930	682,048

Refer Note 2 for further detail on the nature of the deferred tax liabilities on the investment portfolio.

15. Deferred tax liabilities - other

The Group's deferred tax liabilities ("DTL") arise from temporary differences in the recognition of items for taxation and accounting purposes, as described in Note 1 d). The key components are:

(a)	The difference in the cost and the market value of the trading portfolio	5,664	1,120
(b)	Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	(1,048)	(1,163)
(c)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	(483)	(428)
(d)	Interest and dividend income receivable which is not assessable for tax until receipt	887	1,486
		5,020	1,015

Movements:		
Opening balance at 1 July	1,015	2,562
(Credited)/charged to Income statement	4,005	(1,547)
	5,020	1,015

The net DTL arising from provisions and expenses charged but not yet tax deductible will be obtained when the relevant items become tax deductible, provided that the Group derives sufficient assessable income to enable the benefit from the deductions to be taken in that year and there are no intervening changes in tax legislation adversely affecting the Group's ability to claim the tax deduction.

The portion of DTL likely to be reversed within the next 12 months is $5.5 million (2006: $1.4 million). This relates primarily to items described in notes (a), (b) and (d) above.

16. Shareholders' equity – share capital

(a) Share capital

	2007 Shares '000	**2007 $'000**	**2006 Shares '000**	**2006 $'000**
Ordinary shares – fully paid	959,576	1,639,677	931,661	1,501,987
Less ELTIP shares adjustment	-	(729)	-	(331)
	959,576	1,638,948	931,661	1,501,656

(b) Movements in share capital of the Group during the past two years were as follows:

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
1/07/2005	Balance		908,965		1,412,375
23/08/2005	Dividend Reinvestment Plan	i	5,509	3.90	21,486
4/11/2005	Share Acquisition Plan	iii	16,907	3.96	66,949
7/03/2006	Dividend Reinvestment Plan	i	3,164	4.55	14,396
Various	Buy-backs	ii	(2,884)		(13,000)
Various	Cost of share issues		-		(219)
30/06/2006	Balance		931,661		1,501,987
23/08/2006	Dividend Reinvestment Plan	i	4,772	4.70	22,430
22/12/2006	Share Acquisition Plan	iii	19,996	4.90	97,979
8/03/2007	Dividend Reinvestment Plan	i	3,152	5.60	17,647
Various	Buy-backs	ii	(5)		(26)
Various	Cost of share issues		-		(340)
30/06/2007	Balance		959,576		1,639,677

i. The Group has a Dividend Reinvestment Plan (DRP) under which shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days after the shares begin trading on an ex-dividend basis.

ii. The Group introduced an on-market Buy-Back Program in December 2000. During the 2007 financial year the Group had bought back 5,000 shares (2006: 2,883,504 shares) at an average price of $5.17 (2006: $4.51).

iii. The Group issued shares under a Share Acquisition Plan which enabled shareholders to acquire up to $4,998 worth of shares (2006 : $4,998).

(c) Movements in ELTIP shares adjustment during the past two years were as follows ($):

Award Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
2005-2006						
Mar 2004	126,770	-	46,098	-	-	80,672
Oct 2004	80,989	-	24,922	-	-	56,067
Apr 2005	30,729	-	8,194	-	-	22,535
Oct 2005	-	116,113	21,772	-	-	94,341
Mar 2006	-	84,346	7,026	-	-	77,320
Total for 2005/2006	238,488	200,459	108,012	-	-	330,935

Award Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
2006-2007						
Mar 2004	80,672	-	46,098	-	-	34,574
Oct 2004	56,067	-	24,920	-	-	31,147
Apr 2005	22,535	-	8,194	-	-	14,341
Oct 2005	94,341	-	29,028	-	-	65,313
Mar 2006	77,320	-	21,087	-	-	56,233
Aug 2006	-	70,762	16,216	-	-	54,546
Oct 2006	-	128,073	24,021	-	-	104,052
Feb 2007	-	426,967	58,535	-	-	368,432
Total for 2006/2007	330,935	625,802	228,099	-	-	728,638

17. Revaluation Reserve

	2007 $'000	2006 $'000
Opening balance at 1 July	1,806,548	1,419,174
Revaluation of investment portfolio	1,057,464	561,711
Provision for tax on unrealised gains	(333,781)	(174,337)
	2,530,231	1,806,548

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note 1 c)(ii).

18. Realised Capital Gains Reserve

Opening balance at 1 July	243,400	214,737
Dividends paid	(13,224)	(6,363)
Transfer from retained profits	41,707	35,026
	271,883	243,400

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in accounting policy note 1 c)(ii). As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of Directors.

19. General Reserve

Opening balance at 1 July	23,637	23,637
	23,637	23,637

This reserve relates to past profits or gains set aside by Directors. It reflects realised surpluses and may be distributed as cash dividends at the discretion of Directors.

20. Interest-rate swaps

Fair value of Interest-rate swap agreements	1,002	186
	1,002	186

The Company has entered into interest-rate hedging contracts with the Commonwealth Bank of Australia, under which the Company will pay a fixed interest rate on $50 million worth of short-term borrowings. They have been designated as an effective hedge and any movements in their fair value will be shown as an adjustment against equity. These swaps commenced in August 2006 and have a five-year effective life. The reserve and the corresponding asset are the fair value of the interest-rate swaps.

21. Retained Profits

	2007 $'000	2006 $'000
Opening balance at 1 July	237,501	203,534
Dividends paid	(161,115)	(145,074)
Profit for the year	259,341	214,067
Transfer to realised capital gains reserve	(41,707)	(35,026)
	294,020	237,501

22. Financial Risk Management

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Group's investments, receivables, payables and borrowings):

Credit risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed as noted in Notes 6 a), 7, 8 a) & 10 with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are over-due or considered to be impaired.

Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group monitors its cash-flow requirements daily. Furthermore, the Investment Committee monitors the level of contingent payments on a weekly basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require the Group to purchase securities and facilities that need to be repaid. The Group ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

The relatively low level of gearing that the Group has ensures that covenant levels associated with facilities are unlikely to be breached. In the unlikely event that a fall in the value of the stock market is such that a breach would appear possible, the Group would amend its cash-flows through the sale of securities and the cessation of purchases to ensure that any short-term debt is extinguished.

The Group's inward cash-flows depend upon the level of distributions received. Should these drop by a material amount, the Group would amend its outward cash-flows accordingly. As the Group's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is manageable by the Board and management.

Furthermore, the assets of the Group are largely in the form of readily tradeable securities which can be sold on-market if necessary.

Current financial liabilities are shown in Notes 6 b) & 11. All borrowing facilities are drawn for a period no longer than 90 days.

Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature as a Listed Investment Group that invests in tradeable securities, the Group 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 can fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio would lead to a reduction in the Group's equity of $198.5 million and $397 million respectively, at a tax rate of 30%. A similar fall in the Trading Portfolio would lead to a reduction in profit after-tax of $4.5 million and $9.1 million respectively.

The Revaluation Reserve at 30 June 2007 was $2,530.2 million. It would require a fall in the value of the Investment Portfolio of 62% after tax to fully deplete this. In accordance with Accounting Standards, any further falls in value would continue to be recognised in equity as unrealised losses.

The Group 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, normally weekly, and risk can be managed by reducing exposure where necessary. The Group does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Group's investment by sector is as below:

	2007	**2006**
Energy	5.19%	5.02%
Materials	23.34%	22.24%
Industrials	14.48%	13.22%
Consumer Discretionary	5.29%	5.93%
Consumer Staples	7.31%	6.80%
Banks	21.80%	25.15%
Other Financials (incl Property Trusts)	14.05%	14.57%
Telecommunications	3.47%	2.60%
Other - Health Care, Info Technology, Utilities	4.90%	4.47%
Cash	0.17%	-

Securities representing over 5% of the combined investment and trading portfolio at 30 June 2007 were:

	% of portfolio
BHP Billiton	8.6%
Commonwealth Bank	7.4%
Westpac	5.4%

No other security represents over 5% of the Group's investment and trading portfolios.

The Group is not currently materially exposed to interest rate risk as all its cash investments are sort-term and borrowings are short-term for a fixed interest rate but it has entered into a interest-rate hedging contracts with the Commonwealth Bank of Australia, under which the Group will pay a fixed interest rate on $50 million worth of short-term borrowings which commenced in August 2006. This will lock in a fixed rate for a substantial proportion of the Group's debt. Should interest-rates move to the extent that the Board feel that the swaps are uneconomical, they will be unwound and the cost of unwinding them would be reflected through the Income Statement. Interest rate risk on hybrid securities held by the Group is reflected in their market value.

The Group is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

In the trading 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 portfolio.

Under Accounting Standards, movements in the market value of the trading portfolio are reflected directly through the Income Statement. However, the trading portfolio is never permitted to be more than 10% of the total value of the Group's holdings and is usually at much lower levels than this. As at 30 June 2007, it was 2.23% of the total invested including cash (2006: 2.26%). This reduces the risk to the Group's earnings of a short-term fall in the value of securities held in the trading portfolio.

23. Dividends

	2007 $'000	2006 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2006 of 10.5 cents fully franked at 30% paid on 23 August 2006 (2006: 10.0 cents fully franked at 30% paid on 23 August 2005).	97,824	90,897
Interim dividend for the year ended 30 June 2007 of 8.0 cents per share fully franked at 30%, paid 8 March 2007 (2006: 6.5 cents fully franked at 30% paid 7 March 2006)	76,515	60,540
	174,339	151,437
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	134,262	115,555
Reinvested in shares	40,077	35,882
	174,339	151,437
b) Franking credits		
Opening Balance of Franking Account at 1 July	46,510	36,010
Franking Credits on Dividends Received	69,885	59,764
Tax Paid during the year	20,900	15,638
Franking Credits paid on Ordinary Dividends paid	(74,717)	(64,901)
Loss of Franking Credits under 45 Day Rule	-	(1)
Closing Balance of Franking Account	**62,578**	**46,510**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	20,008	22,265
Adjusted Closing Balance	**82,586**	**68,775**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(53,462)	(41,925)
Net available	**29,124**	**26,850**
These franking account balances would allow the Group to frank additional dividend payments up to an amount of:	67,956	62,650

The Group's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and the Group paying tax.

(c) Dividends declared after balance date

	2007 $'000	2006 $'000
Since the end of the year Directors have declared a final dividend of 13 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2007 to be paid on 22 August 2007, but not recognised as a liability at the end of the financial year	124,745	

(d) Listed Investment Company capital gain account

Balance of the Listed Investment Company (LIC) capital gain account	18,417	20,949
This would equate to an attributable amount of	26,310	29,927

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement.

LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios.

24. Earnings per share

Basic Earnings per Share	**2007**	**2006**
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	947,117,861	924,898,666
	$'000	**$'000**
Profit for the year	259,341	214,067
	Cents	**Cents**
Basic earnings per share	27.38	23.14
Basic net operating profit before net gains on investment portfolio per Share		
	$'000	**$'000**
Net operating profit before net gains on investment portfolio	224,398	179,644
	Cents	**Cents**
Basic net operating profit per share	23.69	19.42

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earnings per share is the same as Basic Earnings per Share. This similarly applies to diluted net operating profit before net gains on investment portfolio per Share

25. Directors and Executives

Persons who were Directors of Australian Foundation Investment Company Limited for part or all of the financial year ended 30 June 2007 were:

BB Teele
DR Argus
RE Barker
TA Campbell
J Paterson
FD Ryan
SDM Wallis
CM Walter

Persons who were executives with authority for the strategic direction and management of the Group for part or all of the financial year ended 30 June 2007 were:

RE Barker – Managing Director
GN Driver – General Manager – Business Development and Investor Relations
RM Freeman – Chief Investment Officer *(commenced 5th February 2007)*
AJB Porter – Chief Financial Officer
SE Crook – Company Secretary & General Counsel.

The sub-totals of Remuneration for the above are as follows:

	Short-term benefits $	Post-employment benefits $	Share-based payments $	Total $
2007				
Non-executive Directors	132,992	347,008	-	480,000
Executives	2,255,905	205,215	470,621	2,931,741
	2,388,897	552,223	470,621	3,411,741
2006				
Non-executive Directors	400,000	36,000	-	436,000
Executives	1,466,127	94,346	349,821	1,910,294
	1,866,127	130,346	349,821	2,346,294

The Group has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report.

During the current financial year the following numbers of AFIC shares were purchased as part of the Short Term Incentive Plan based on an assessment of performance :

	2007 Number	**2006 Number**
RE Barker	26,186	28,995
GN Driver	5,275	8,966
AJB Porter	4,832	8,425
SE Crook	5,377	-
Shares awarded during the year	41,670	46,386

Set out below is a summary of AFIC shares awarded but not yet vested under the Executive Long Term Incentive Plan and under the Chief Investment Officer's commencement arrangements.

Award date	Assessment period	Balance at start of the year Number	Awarded during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at end of the year Number
Mar 2004	Apr 08 - Mar 09	56,166	-	-	-	56,166
Oct 2004	Nov 08 - Oct 09	29,485	-	-	-	29,485
Apr 2005	May 09 – Apr 10	9,130	-	-	-	9,130
Oct 2005	Nov 09 – Oct 10	28,995	-	-	-	28,995
Mar 2006	Apr 10 – Mar 11	17,391	-	-	-	17,391
Aug 2006	Sept 10 – Aug 11	-	15,484	-	-	15,484
Oct 2006	Nov 10 – Oct 11	-	26,186	-	-	26,186
Feb 2007*	N/A	-	70,000			70,000
Total		141,167	111,670	-	-	252,837

* These shares relate to commencement arrangements for the Chief Investment Officer, and will vest over 3 years.

- The maximum number of shares that may vest is as above. The minimum is nil.

Shareholdings

At balance date, shares issued by the Group and held directly, indirectly or beneficially by non-executive directors and executives of the Group, or by entities to which they were related were:

	Opening balance	Received as remuneration	Other changes	Closing balance	Subject to vesting
BB Teele	1,760,309	-	1,020	1,761,329	-
DR Argus	253,750	-	158,625	412,375	-
RE Barker	597,385	52,372	2,040	651,797	128,688
TA Campbell	197,000	-	1,020	198,020	-
J Paterson	205,123	-	2,040	207,163	-
FD Ryan	82,500	-	1,020	83,520	-
SDM Wallis	163,900	-	-	163,900	-
CM Walter	77,449	-	23,000	100,449	-
GN Driver	89,819	10,550	338	100,707	35,515
RM Freeman	-	70,000	N/A	82,944	70,000
AJB Porter	17,136	9,664	10	26,810	13,257
SE Crook	111,142	10,754	2,673	124,569	5,377

Note: Shareholdings do not include shares that were purchased during the year ended 30 June 2008 as part of remuneration for the year ending 30 June 2007. Shareholdings do include amounts that are subject to vesting.

Other arrangements with non-executive directors

Non-Executive Directors Fergus Ryan, Stan Wallis and Catherine Walter rent office space from the Group at commercial rates with effect from 1 April 2006. The rental arrangements can be terminated with a fortnight's notice. Consequently, no future minimum sub-lease payments are disclosed in Note 32. Sub-lease rental income received by the Group during the year:

	2007 $	2006 $
FD Ryan	12,136	3,843
SDM Wallis	19,480	6,196
CM Walter	18,734	5,968
	50,350	16,007

26. Employee information

Employee numbers	2007 Number	2006 Number
Number of employees at balance date	14	11

Employee share scheme

The Group has established a formal process for awarding up to $1,000 worth of fully-paid ordinary shares for each completed year of service to employees not participating in the ELTIP. During the current financial year the 6 participants (2006: 6) in the scheme were each awarded 187 shares (2006: 210) in the Group in relation to their performance for the year ended 30 June 2006. These shares cost the Group $5,979 (2006: $6,131) to acquire on market, including brokerage.

27. Related parties

Director TA Campbell has an interest in the following transactions as a Director, employee and shareholder of Goldman Sachs JBWere Pty Ltd, Goldman Sachs JBWere Services Pty Ltd and Goldman Sachs JBWere Capital Markets Limited. All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

		2007 $'000	2006 $'000
(a)	The Group invests surplus funds in deposits at call with Goldman Sachs JBWere		
	- interest revenue received or receivable	787	90
	- deposits at call (at balance date)	-	733
	- funds invested in Goldman Sachs JB Were A$ Cash Reserves Fund	9,741	-
(b)	The management of surplus funds is outsourced to Goldman Sachs JB Were Capital Markets Ltd		
	- expense paid or payable for management of the cash and bill portfolio	18	36
(c)	The Group obtains investment advice and buys and sells securities through Goldman Sachs JBWere Pty Ltd amongst other brokers		
	- Brokerage expenses paid or payable	735	802
	- Portfolio advice services paid or payable	44	44
(d)	The Group obtains the following services from Goldman Sachs JBWere Pty Ltd		
	- Computer services	175	61
(e)	The Group rented premises from Goldman Sachs JBWere Services Pty Ltd.	-	129

28. Remuneration of auditors

	2007 $	2006 $
During the year the auditor earned the following remuneration:		
PricewaterhouseCoopers		
Audit or review of financial reports	151,800	127,820
Non-Audit Services		
Taxation compliance services	23,100	22,000
Other taxation services	5,390	11,880
Other assurance services #	47,575	17,325
Total Non-Audit Services	76,065	51,205
Total remuneration	227,865	179,025

the other assurance service relates to work regarding an examination of the Group's risk management systems and its compliance with its Australian Financial Services Licence obligations.

The Group's Audit Committee oversees the relationship with the Group's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit related tax compliance services provided by the audit firm to ensure they do not compromise independence. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Audit Committee would review the proposal to also ensure they did not affect the independence of the external audit function. The Group also conforms to legal requirements regarding audit partner rotation every 5 years.

29. Reconciliation of net cash flows from operating activities to profit

	2007 $'000	2006 $'000
Profit for the year	259,341	214,067
- Add back depreciation	102	33
- Net decrease (increase) in trading portfolio	(27,658)	16,608
- Net capital losses (gains) before tax	(37,496)	(43,484)
- Dividends received as securities under DRP investments	(4,727)	(6,167)
- Decrease (increase) in current receivables	3,756	(21,434)
- Less increase (decrease) in receivables for investment portfolio	(1,196)	5,232
- Increase (decrease) in deferred tax liabilities	334,887	172,609
- Less (increase) decrease in deferred tax liability on investment portfolio	(330,882)	(174,156)
- Less (credit) charge for income tax on gain or loss on hybrid securities	(2,899)	(181)
- Increase (decrease) in current payables	6,858	(2,708)
- Less decrease (increase) in payables for investment portfolio	(7,429)	4,570
- Less increase (decrease) in dividends payable	(78)	(121)
- Net movement in ELTIP account	(398)	(93)
- Increase (decrease) in provision for tax payable	(3,507)	6,538
- Increase (decrease) in other provisions	344	156
Net cash flows from operating activities	189,018	171,469

30. 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 Investment Commission ("ASIC"), payable on demand to ASIC.

31. Contingencies

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

32. Lease commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for 6 and half years with three further options of 4 years. Commitments relating to leases at balance date, but not recognised as a liability:

	2007 $'000	2006 $'000
Due within one year	412	396
Later than one year but less than five	1,893	1,748
Greater than five years	-	276
	2,305	2,420

33. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy noted in Note 1 b) :

Name of entity	Country of Incorporation	Class of shares	Equity holding 2007	Equity holding 2006
Australian Investment Company Services Ltd	Australia	Ordinary	100%	100%

34. Post Balance Sheet Events

On 1st July 2007, AICS issued 199,999 shares of which Djerriwarrh Investments Limited purchased 50,000 for $50,000, giving it a 25% shareholding in AICS. AFIC purchased the remainder for $149,999 giving it a 75% shareholding, and the inter-company loan was extinguished.

35. Share based payments

The Group has a number of share incentive arrangements, these are accounted for in accordance with note 1 h). 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. The plans are summarised below, further details can be found in the remuneration report and note 16.

(i) Short Term Incentive Plan
As set out in the remuneration report the amount of shares awarded to executives depends on performance assessed against a number of quantitative measures, being: total shareholder return; total portfolio return; growth in earnings per share; management expense ratio; and assessment of the performance of the other investment companies to which executives are made available by AICS and for which AICS receives a fee, using similar quantitative measures. Assessment is also made against a number of qualitative measures.

These shares are subject to a two year holding lock.

(ii) Long Term Incentive Plan
Shares awarded under the long term incentive plan are acquired on market. The award of shares to participants is made for no consideration. The shares are subject to a holding lock for a minimum of four years during which time the executive will be entitled to receive dividends and hold voting rights.

Between year four and year five, an assessment of the Group’s performance is made each month to determine the Total Portfolio Return of the Group against the ASX200 Accumulation Index Return, and the Total Portfolio Return of the Group against the survey of Australian Retail Fund Managers over the previous 48 months (from month of assessment). Shares will vest based on the highest cumulative performance class achieved during this assessment period. If after five years full vesting does not occur, the shares that have not been awarded will lapse and be transferred back to the Group for no consideration. These shares will then be cancelled.

Details of the movements on ELTIP shares in the period are set out in note 16.

(b) Employee Share Scheme
The Group has established a formal process for awarding up to $1,000 worth of fully-paid ordinary shares for each completed year of service to employees not participating in the ELTIP. During the current financial year 6 participants (2006: 6) in the scheme were each awarded 187 shares (2006: 210).

(c) Other Share Based Payments
From time to time the Group may remunerate executives or employees in shares. These shares are not subject to a holding lock or vesting conditions and will be purchased on-market.

(d) 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 (including the expense for the ELTIP) were as follows:-

	2007	**2006**
	$’000	**$’000**
Share-based payment expense	482	356

(e) Liability
The total liability arising from share based payment transactions is disclosed in note 12.

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

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Australian Foundation Investment Company Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Australian Foundation Investment Company Limited and the Australian Foundation Investment Company Group (the consolidated entity). The consolidated entity comprises the company and the entity it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporation Act 2001*, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

Simon Gray
Partner

Melbourne
25 July 2007