Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

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- Results for announcement to the market
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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2007 with the previous corresponding period being the half-year ended 31 December 2006. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was $117.6 million, 9.8% up from the previous corresponding period.
- Operating Profit after tax was $110.7 million, 3.7% up from the previous corresponding period. In the opinion of Directors, this is the better measure of the Company's performance in deriving on-going investment and trading income from its portfolios.
- Net Profit attributable to members (including capital gains) was $326.1 million, 185.2% up from the previous corresponding period due to the large increase in realised gains from the Company's investment portfolio this period. This was primarily due to increased take-over activity compared to the previous corresponding period (e.g. sales of the Company's holdings in Alinta, Coles Group, Rinker and Southern Cross Broadcasting).
- The interim dividend is 8 cents per share, fully franked, the same as last year's interim dividend. It will be paid on 27 February 2008 to ordinary shareholders on the register on 11 February 2008.
- The Company operates a Dividend Reinvestment Plan ("DRP") under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at a 5% discount to the average selling price of shares traded on the Australian Securities Exchange in the five days from the day the shares begin trading on an ex-dividend basis. This will therefore be at the same price as the Share Acquisition Plan announced today. The last day for the receipt of an election notice for participation in the plan is 11 February 2008.
- In addition to the DRP, a Share Acquisition Plan ("SAP") has been announced for shareholders to acquire up to $5,000 worth of new shares. As with the DRP, pricing will be at a 5% discount to the average selling price of shares traded on the Australian Securities Exchange in the five days from the day the shares begin trading on an ex-dividend basis. The record date for the SAP is the same as for the DRP, i.e. 11 February 2008.
- The final dividend for the 2007 financial year was 13 cents per share (fully franked), and it was paid to shareholders on 22 August 2007.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2007 were $5.96, up from $5.30 at the end of the previous corresponding period (both before allowing for interim dividends).

MEDIA RELEASE

30 January 2008

HALF YEAR RESULT TO 31 DECEMBER 2007.

KEY POINTS

- **Net Operating Profit after tax** was $110.7 million (last year $106.8 million), up 3.7%. In the opinion of Directors, this is the better measure of the Company's performance in deriving on-going investment and trading income from its portfolios.
- **Profit after tax** which includes realised gains in the Investment Portfolio was $326.1 million (last year $114.4 million). This figure varies greatly from year-to-year as it includes realised capital gains on the Company's investment portfolio. These have been substantial during this period largely due to take-over activity which resulted in the sale of the Company's holdings in Alinta, Coles Group, Rinker and Southern Cross Broadcasting.
- **Earnings per share** based on Net Operating Profit were 11.5 cents, a slight increase over 11.4 cents last year. Operating earnings per share is the key measure used in the Company's dividend considerations.
- **A fully franked interim dividend** of 8 cents per share will be paid on 27 February 2008. This is in line with the interim dividend paid last year. The pricing of shares issued under the Dividend Reinvestment Plan (DRP) for the interim dividend will be at a 5% discount to the average selling price of shares traded on the ASX in the 5 days from the day the shares begin trading on an ex-dividend basis (5 February 2008).
- **Share Acquisition Plan** announced for shareholders to each acquire up to $5,000 worth of new shares. The shares issued under this Plan will be based on same pricing as the DRP, including the 5% discount.
- **Total portfolio return** over the six month period (measured by change in net asset backing per share plus dividend reinvested) was 1.2%. Over the twelve month period to 31 December 2007 the equivalent return was 16.5%. Note these figures are after fees and tax paid.
- **Total shareholder return** measured by the change in share price plus reinvested dividend over the half year was 11.3%. Over the twelve month period to 31 December 2007 the equivalent return was 23.7%.
- **Net asset backing** at 31 December 2007 was $5.96 (before allowing for the 8 cent interim dividend).
- **Management expense ratio** was 0.13% (net of administration fees recovered from other Investment Companies).
- **Total portfolio** (including cash and bank bills) at 31 December 2007 was $5.8 billion.

Chairman's Comments

The Chairman, Mr Bruce Teele commented "The upheaval in global credit markets which has been unfolding since August as a result of the sub-prime mortgage crisis in the United States has been virtually unprecedented. Lending institutions have become extremely sensitive to risk, and as a result are requiring much higher interest rates on the funds that they do lend. They have substantially reduced credit availability to corporate borrowers with only the most credit-worthy still having ready access to credit markets.

This event has been a complete reversal of conditions prevailing over recent years of freely accessible credit at very low interest rates to virtually any borrower. As a result, excesses of debt and complex financing structures have developed without investors fully appreciating the risks. With this change in the environment, markets have reacted particularly negatively to companies with these complex structures and/or high debt levels which they need to refinance in the immediate term.

With little sense of risk, equity markets seemed to be initially immune from the credit market turmoil. However as investors became aware of the heightened risks and the potential impact of the sub-prime debt fall-out may have on global economies, particularly the US, significant volatility has also hit the equity market. As a result, the Australian equity market made little headway with only the resources sector generating any significant returns over the period. Other parts of the market recorded flat to negative returns.

From our perspective we have been very reserved about the market given the prolonged growth over recent years, the build-up in risks and high valuations surrounding a number of stocks in the market. We have only been adding incrementally to the Investment Portfolio. We have kept the trading account at low levels during the six months to 31 December 2007. We have also kept our borrowings low at a level which is equivalent to our interest rate hedge of $50 million.

The Company also travelled with a reasonable amount of cash through the period following the receipt of funds generated by the acquisition of our holding in Rinker Group by Cemex S.A.B. de C.V., and part of the consideration for the Coles Group paid by Wesfarmers. At the end of December, we had $196 million of cash.

Outlook

Since 31 December 2007 equity markets globally have undergone a major decline. This reflects a very negative assessment of the short term outlook. The markets appear to be factoring in a recession in the United States which spills over into the global economy. Investors consequently are now extremely wary of risk.

In Australia the upcoming reporting season will be an important guide to how our companies are dealing with the rising costs of labour and production as a result of our strong economy, and the impact of the reduction in availability of credit and rising interest rates. The market will be closely monitoring trends in profit margins and the prospects for earnings growth in the substantially altered forecast outlook.

In our view the Australian economy appears reasonably sound. Many major companies have strong balance sheets, are well managed and have good prospects for growth, even though we have entered a period of uncertain global economic conditions.

The prospects for continuing growth in China resulting from urbanisation and the further growth in other emerging economies such as Brazil, India and Russia are also likely to sustain demand for resources over the medium to longer term. Many Australian companies will benefit from this trend.

As indicated earlier, we have good reserves of cash which we have not hastened to reinvest in the market. However, continuation of recent market turbulence will provide opportunities to add good quality stocks to the portfolio at more attractive prices than were previously available."

Profit Performance

Net Operating Profit after tax for the period (which excludes realised capital gains) was $110.7 million, an increase of $3.9 million or 3.7% on the corresponding period last year. Underlying income from the Investment Portfolio was up $6.6 million, with an increase in fully franked dividends of $7.5 million or 9.2%. This reflects the investment focus of AFIC, the sound levels of company profits that have been generated in a buoyant Australian economy and the Company's investment in the Telstra Instalment Receipts which did not produce a dividend in the corresponding period last year.

Income from trusts was down as the Company received a special income payment of $2.5 million from Centro Properties last year which was not repeated in this half.

The result for Net Operating Profit per share was steady at 11.5 cents per share versus 11.4 cents per share over the corresponding period last year.

Under the Australian equivalents to International Accounting Standards (AIFRS), Net Profit after tax differs from the Net Operating Profit after tax as it includes realised gains in the investment portfolio. As noted previously this measure is likely to move around from period to period depending on the level of sales from the Investment Portfolio which is inherently unpredictable. The profit on this basis for the six months to 31 December 2007 was $326.1 million. This was significantly higher than last year's figure of $114.4 million. This increase is as a result of the number and size of takeovers and disposals which occurred during the period.

Dividends

Directors have declared an interim dividend of 8 cents per share fully franked payable on 27 February 2008 to shareholders on the register on 11 February 2008 (shares will trade ex dividend from 5 February 2008).

Given the uncertainties surrounding market conditions, the Directors felt it prudent to keep the interim dividend in line with last year's interim dividend. In this context, Directors consider the sustainability of Net Operating Profit as being the key focus for setting the dividend rather than Net Profit which as noted above can be subject to sharp variations because of the inclusion of realised gains in the Investment Portfolio which are inherently unpredictable.

Trading Portfolio

The Trading Portfolio averaged just under 3% of the Company's total portfolio over the half year as we remained cautious about market conditions.

In addition, with the market delivering more subdued capital growth, the Trading Portfolio produced $1.4 million in net gains (realised and unrealised) over the six months to 31 December 2007. This is in contrast to the previous corresponding period which delivered $12.0 million.

Investment Portfolio

The activity in the Investment Portfolio was dominated by sales through corporate activity. Coles Group was taken over by Wesfarmers and Rinker by Cemex S.A.B. de C.V. In addition, a number of other companies in the portfolio were subject to change with Southern Cross Broadcasting being taken over by Fairfax & Macquarie Media, Smorgon Steel taken over by OneSteel and Alinta by a consortium of interests.

In addition, given our heightened concerns about the level of gearing and debt profile evident in some company balance sheets, we decided to exit our positions in Centro Properties Group and Transpacific Industries, and reduce our holding in Asciano Group.

During the six months to 31 December 2007 we have been selectively adding to existing holdings. In the context of the overall portfolio these have been incremental in nature, with the additional investments in Equity Trustees, Campbell Brothers and Dyno Nobel being the major additions.

Overall unrealised gains before the provision for tax on the Investment Portfolio decreased $256.1 million during the six month period compared with a rise of $439.0 million during the corresponding six month period last year (although it should be noted that a substantial part of this decline was due to the large amount of gains that were 'realised' during the period.) The key positive contributors to AFIC's performance over the six months were Rio Tinto, BHP Billiton, Woolworths, Commonwealth Bank, Westpac Banking Corporation and Incitec Pivot.

As at 31 December 2007 the value of the Company's investment and trading portfolios at market value, including cash, was $5.8 billion.

Announcement of Share Acquisition Plan

Directors have decided to make an offer to shareholders under the Company's Share Acquisition Plan to raise additional equity for investment purposes.

Shareholders with a registered address in Australia or New Zealand on the register at 5.00 pm on 11 February 2008 will be able to invest up to $5,000 in the Company's shares. The issue price of these share will be at a 5.0% discount to the volume weighted average price on the ASX for the five trading days leading up to the books closing date of 11 February 2008 (inclusive). This is the same pricing for shares to be issued under the Dividend Reinvestment Plan.

Note that the shares issued under the Share Acquisition Plan will be eligible to participate in the final dividend in respect of the year ending 30 June 2008 to be paid in August 2008.

Details of the Share Acquisition Plan will be mailed to shareholders on 26 February 2008. Applications will close on 20 March 2008.

For the purposes of ASX Listing Rule 3.10.3 the shares to be issued would be ordinary fully paid shares ranking alike with existing shares and the maximum number of shares will be dependant upon the issue price. Under the Listing Rules shareholder approval is not required for a Share Acquisition Plan.

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 31 DECEMBER 2007

Includes investments held in both the Investment and Trading Portfolios

				Total Value $ million
1	*	BHP	BHP Billiton	570.1
2	*	CBA	Commonwealth Bank of Australia	463.6
3		WBC	Westpac Banking Corporation	342.3
4	*	RIO	Rio Tinto	337.2
5	*	WES	Wesfarmers (a)	324.8
6	*	NAB	National Australia Bank	265.3
7		WOW	Woolworths	210.9
8	*	TLS	Telstra Corporation (b)	207.2
9	*	ANZ	Australia and New Zealand Banking Group	138.6
10	*	WPL	Woodside Petroleum	112.9
11		WAN	West Australian Newspapers Holdings	98.6
12	*	TOL	Toll Holdings	94.0
13	*	AMP	AMP	91.8
14	*	AWC	Alumina	85.7
15	*	WDC	Westfield Group	84.8
16	*	BXB	Brambles	84.1
17		QBE	QBE Insurance Group	84.0
18		CPU	Computershare	80.6
19		SGB	St George Bank	80.4
20		IPL	Incitec Pivot	75.9
21	*	AMC	Amcor	71.9
22		ORI	Orica	70.8
23	*	SUN	Suncorp-Metway	67.7
24	*	STO	Santos	66.7
25		MLT	Milton Corporation	66.2
				4,176.2
			As % of Total Portfolio Value ($5,649m, excludes Cash)	73.9%

(a) Includes $57.0 million of WESN partially protected securities

(b) Includes $53.0 million of TLSCA instalment receipts

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

Australian Foundation
INVESTMENT COMPANY

AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED

ABN 56 004 147 120

HALF-YEAR REPORT

31 DECEMBER 2007

COMPANY PARTICULARS

Australian Foundation Investment Company Limited ("AFIC")
ABN 56 004 147 120

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

Directors:	Bruce B. Teele, Chairman Donald R. Argus AO Ross E. Barker, Managing Director Terrence A. Campbell AO John Paterson Fergus D. Ryan Stan D.M. Wallis AC Catherine M. Walter AM
Company Secretary:	Sue Crook Andrew J.B. Porter
Auditor:	PricewaterhouseCoopers, Chartered Accountants
Country of incorporation:	Australia
Registered office:	Level 21 101 Collins Street Melbourne, Victoria 3000
Contact Details:	Mail Address: GPO Box 2114, Melbourne, Victoria 3001 Telephone : (03) 9650 9911 Facsimile: (03) 9650 9100 Email: invest@afi.com.au Internet address: www.afi.com.au For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange): Telephone: 1800 780 784 (toll free)
Share Registrar:	Computershare Investor Services Limited Mail Address: Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067 AFIC Shareholder enquiry lines : 1300 662 270 (Aus) 0800 333 501 (NZ) +613 9415 4373 (from overseas) Facsimile: (03) 9473 2500 Email: web.queries@computershare.com.au Internet: www.computershare.com.au
Share Registrar	For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.
Stock Exchange Code:	AFI Ordinary shares

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2007 on the consolidated entity (“the Group”) consisting of Australian Foundation Investment Company Limited (“the Company” and “AFIC”) and its subsidiary, Australian Investment Company Services Limited (“AICS”).

Directors

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

B.B. Teele
D.R. Argus AO
R.E. Barker
T.A. Campbell AO
J. Paterson
F.D. Ryan
S.D.M. Wallis AC
C.M. Walter AM

Review of the Group's operations and results

Overview

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

During the period, the Company’s subsidiary, Australian Investment Company Services Limited (“AICS”), which provides administration services and holds an Australian Financial Services Licence issued 149,999 new shares. Djerriwarrh Investments Limited purchased 50,000 of them, becoming a 25% shareholder of AICS, whilst AFIC purchased the remainder. The inter-company loan was extinguished.

Profit Performance and Dividend

Net Operating Profit after tax, which excludes realised capital gains and primarily reflects on-going earnings from the Company’s long term investment portfolio, increased to $110.7 million or 3.7% over the equivalent number of $106.8 million last year. The operating profit per share for the six months to 31 December 2007 was 11.5 cents per share with an interim dividend declared of 8 cents per share.

Under Australian equivalents to International Financial Reporting Standards (“AIFRS”), the reported profit after tax of the Company for the six months to 31 December 2007 was $326.1 million. This figure includes after tax profits on the sale of securities from the investment portfolio of $216.2 million which are required to be included as profit under these standards.

Market conditions

The Company has been very reserved about the market given the prolonged growth over recent years, the build up in risks and high valuations surrounding a number of stocks in the market. The Company has been selectively adding to the Investment Portfolio and has kept the trading account at low levels during the six months to 31 December 2007. Borrowings have been confined to an amount which is equivalent to the interest rate hedge.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Unless specifically stated otherwise, amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Bruce B. Teele
Chairman
Melbourne
30 January 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
Website:www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Foundation Investment Company Limited and the entity it controlled during the period.

David Coogan
Partner
PricewaterhouseCoopers

Melbourne
30 January 2008

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Note	Half-year 2007 $'000	Half-year 2006 $'000
Dividends and distributions		112,581	106,180
Revenue from deposits and bank bills		3,598	237
Other revenue		1,399	691
Total revenue		**117,578**	**107,108**
Net gains on trading portfolio		1,383	12,012
Income from operating activities before net gains on investments	**3**	**118,961**	**119,120**
Finance costs		(1,685)	(3,120)
Administration expenses		(5,260)	(3,542)
Operating profit before income tax expense and net gains on investments		**112,016**	**112,458**
Income tax expense*		(1,322)	(5,669)
Net operating profit before net gains on investments		**110,694**	**106,789**
Net gains/(losses) on investments			
Net gains on Ordinary Securities sold from the investment portfolio		269,353	7,791
Net gains/(losses) on Other Securities		(1,140)	2,521
Tax expense on net gains on investments*		(52,769)	(2,735)
		215,444	7,577
Profit for the half-year		**326,138**	**114,366**
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company Ltd		326,103	114,366
Minority Interest		35	-
		326,138	**114,366**
		Cents	**Cents**
Basic earnings per share	**8**	33.87	12.22
Diluted earnings per share	**8**	33.87	12.22

	Half-year 2007 $'000	Half-year 2006 $'000
***** Total Tax Expense	54,091	8,404

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	31 Dec 2007 $'000	30 June 2007 $'000
Current assets			
Cash		195,974	9,796
Receivables		10,335	37,792
Trading portfolio	**4**	162,230	129,482
Interest-rate hedging contracts		1,607	1,002
Total current assets		**370,146**	**178,072**
Non-current assets			
Fixtures & fittings		765	816
Investment portfolio		5,486,338	5,671,726
Total non-current assets		**5,487,103**	**5,672,542**
Total assets		**5,857,249**	**5,850,614**
Current liabilities			
Payables		3,063	10,965
Tax payable		56,187	11,050
Borrowings		50,000	50,000
Provisions		151	794
Total current liabilities		**109,401**	**72,809**
Non-current liabilities			
Provisions		207	134
Deferred tax liabilities - investment portfolio	**5**	973,148	1,012,930
Deferred tax liabilities - other		1,662	5,020
Total non-current liabilities		**975,017**	**1,018,084**
Total liabilities		**1,084,418**	**1,090,893**
Net Assets		**4,772,831**	**4,759,721**
Shareholders' equity			
Share Capital	**6**	1,666,818	1,638,948
Revaluation Reserve		2,313,423	2,530,231
Realised Capital Gains Reserve		471,645	271,883
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		1,607	1,002
Retained Profits		295,651	294,020
Parent Entity Interest		**4,772,781**	**4,759,721**
Minority Interest		50	**-**
Total equity		**4,772,831**	**4,759,721**

This balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Note	Half-year 2007 $'000	Half-year 2006 $'000
Total equity at the beginning of the half-year		**4,759,721**	**3,812,928**
Dividends paid	**7**	(124,745)	(97,824)
Shares issued - Dividend Reinvestment Plan		27,944	22,430
- Share Acquisition Plan		-	97,979
- To Minority Interests in Subsidiary		50	-
On-market share buy-backs		(12)	(15)
Other Share Capital Adjustments		(62)	(124)
Total transactions with share-holders		**(96,825)**	**22,446**
Revaluation of investment portfolio		(256,115)	439,028
Provision for tax on unrealised gains		39,307	(127,796)
Net unrealised gains/(losses) recognised directly in equity		(216,808)	311,232
Net movement in fair value for interest rate swaps		605	317
Profit for the half-year		326,138	114,366
Total recognised income (including unrealised gains) & expense for the half-year		**109,935**	**425,915**
Total equity at the end of the half-year		**4,772,831**	**4,261,289**
Total recognised income and expense for the half-year is attributable to :			
Members of AFIC		109,900	425,915
Minority Interest		35	-
		109,935	**425,915**

This statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Half-year 2007 $'000 INFLOWS/ (OUTFLOWS)	Half-year 2006 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	42,533	39,745
Purchases for trading portfolio	(73,821)	(64,065)
Interest received	3,705	2,589
Dividends and distributions received	131,278	122,683
	103,695	100,952
Other receipts	1,430	657
Administration expenses	(5,095)	(3,322)
Finance costs paid	(1,741)	(3,364)
Income taxes paid	(12,505)	(14,499)
Net cash inflow/(outflow) from operating activities	**85,784**	**80,424**
Cash flows from investing activities		
Sales from investment portfolio	322,203	46,190
Purchases for investment portfolio	(125,258)	(151,062)
Payment for fixed assets	-	(19)
Net cash inflow/(outflow) from investing activities	**196,945**	**(104,891)**
Cash flows from financing activities		
Proceeds from borrowings	100,000	316,000
Repayment of borrowings	(100,000)	(307,000)
Share issues	50	97,979
Share issues transaction costs	-	(6)
Payment for shares bought back	(12)	(15)
Dividends paid	(96,589)	(75,255)
Net cash inflow/(outflow) from financing activities	**(96,551)**	**31,703**
Net increase/(decrease) in cash held	186,178	7,236
Cash at the beginning of the half-year	9,796	738
Cash at the end of the half-year	**195,974**	**7,974**

This cash flow statement should be read in conjunction with the accompanying notes.

1. Basis of preparation of half-year financial report

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2007 Annual Report and public announcements made by the Company during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The Company 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

2. Financial reporting by segments

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

3. Income from operating activities

Income from operating activities is comprised of the following:

	Half-year 2007 $'000	**Half-year 2006 $'000**
Dividends & distributions		
• securities held in investment portfolio	110,001	101,159
• securities held in trading portfolio	2,428	2,651
	112,429	103,810
Interest income		
• securities held in investment portfolio	152	2,370
• deposits and income from bank bills	3,598	237
	3,750	2,607
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	96	4,040
• unrealised gains/(losses) in trading portfolio	1,287	7,972
	1,383	12,012
Administration fees	1,235	570
Other income	164	121
	118,961	**119,120**

4. Current assets – trading portfolio

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

As at balance date the Company had sold put options which at the option of the purchaser may require the Company to buy prior to the respective expiry dates, if they were exercised, certain securities at prices which in aggregate totalled $20.1 million (2006: $7.3 million). As at balance date there were call options outstanding which potentially required the Company, if they were exercised, to deliver securities to the value of $119.4 million (2006: $88.7 million).

5. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling $973.1 million (30 June 2007 $1.01 billion). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

6. Shareholders' equity – share capital

	31 Dec 2007 Shares '000	31 Dec 2007 $'000	30 June 2007 Shares '000	30 June 2007 $'000
(a) Share Capital				
Ordinary shares – fully paid	964,408	1,667,609	959,576	1,639,677
Less ELTIP shares adjustment	-	(791)	-	(729)
	964,408	1,666,818	959,576	1,638,948

ELTIP is the Executive Long Term Incentive Plan

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

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
01/07/2007	Opening Balance		959,576		1,639,677
22/08/2007	Dividend Reinvestment Plan	i	4,834	5.78	27,944
Various	Buy-backs	ii	(2)		(12)
31/12/2007	Balance		964,408		1,667,609

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

ii The Company introduced an on-market Buy-Back Programme in December 2000. During half-year ended 31 December 2007 the Company had bought back 2,000 shares at an average price of $5.95. During the corresponding period in 2006, 3,000 shares were bought back at an average price of $4.93.

(c) Movements in ELTIP shares adjustment during the half-year were as follows:

Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
01/07/2007	$728,638	-	$(159,764)	-	-	$568,874
09/08/2007	-	$247,183	$(24,914)	-	-	$222,269
Total	$728,638	$247,183	$(184,678)	-	-	$791,143

7. Dividends	**Half-year 2007 $000**	**Half-year 2006 $000**
Dividends paid during the period	124,745	97,824

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 8 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 27 February 2008, but not recognised as a liability at the end of the half-year is	77,153	

8. Earnings per Share	**Half-year 2007**	**Half-year 2006**
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	963,016,893	936,009,837
Basic earnings per share		
	$'000	**$'000**
Profit attributable to members of the company	326,138	114,366
	Cents	**Cents**
Basic earnings per share	33.87	12.22
Net operating profit per share		
	$'000	**$'000**
Net operating profit	110,694	106,789
	Cents	**Cents**
Net operating profit per share	11.49	11.41

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.

9. Events subsequent to balance date

Since 31 December 2007 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Company or its financial position. However, Directors note that there has been a substantial correction in the markets in which the Company invests between the Balance Sheet date and the date of this report. Changes in the value of the Company's investments are reflected in the Company's Net Asset Backing per share which is reported to the ASX monthly and is available on the Company's web-site and toll-free telephone number.

10. Contingencies

At balance date, the Company had 16.7 million Telstra Instalment Warrants in its investment and trading portfolios. Should the Company still hold these securities on 29 May 2008, an instalment payment of $1.60 per security will be payable. As the market price of the securities reflects this at the Balance Date, no liability in respect of this amount has been included in the balance sheet. In addition, should the Company continue to hold these securities until 15 May 2008 and makes the payment noted above, it will be eligible to receive an additional 658,500 Telstra shares at no cost.

11. Australian Investment Company Services

On 1 July 2007 Australian Investment Company Services Limited ("AICS") issued 149,999 new shares. Djerriwarrh Investments Limited purchased 50,000 of them and the Company purchased the remainder. As a consequence, the Company's shareholding decreased from 100% to 75% of AICS' issued share capital.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 14 to 21 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance, as represented by the results of the operations, changes in equity and cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Bruce B. Teele
Chairman
Melbourne
30 January 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
Website:www.pwc.com/au

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Australian Foundation Investment Company Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Australian Foundation Investment Company Limited Group (the consolidated entity). The consolidated entity comprises both Australian Foundation Investment Company Limited and the entity it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Foundation Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

PRICEWATERHOUSECOOPERS

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

David Coogan
Partner

Melbourne
30 January 2008