



Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4D STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

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AFIC CASHED UP BUT PATIENT

MEDIA RELEASE - HALF YEAR RESULT TO 31 DECEMBER 2008

28 January 2009

AFIC has continued to hold a relatively strong cash position during the past six months. This approach in concert with its ongoing strategy of avoiding exposure to companies with complex business models and or high levels of debt meant its portfolio was relatively less impacted by the recent market turbulence. The AFIC portfolio outperformed the general market by 3% with a fall of 24% over the December half year compared to the 27% decline in the general market.

AFIC had a cash holding of \$236 million at 31 December 2008.

The Net Operating Profit was down marginally to \$107.8 million from \$110.7 million last year. Income from investments and deposit interest were up however this was offset by a decline in the value of the Trading Portfolio.

The interim dividend has been maintained at 8 cents per share. The Dividend Reinvestment Plan for the interim dividend has been maintained with the discount increasing from 0% to 5%.

The major sales in the Investment Portfolio were driven by corporate activity, St George Bank was taken over by Westpac and Queensland Gas was taken over by British Gas. The Company also decided to divest its position in ConnectEast and sell the majority of its holding in Suncorp-Metway during the period.

Whilst AFIC has been taking a cautious approach to investing, recent capital raisings have provided some opportunities to invest. As a result the major purchases during the half year were Alumina, Commonwealth Bank, Incitec Pivot, National Australia Bank, QBE Insurance, Tox Free Solutions and Westpac.

Recent conditions provide investors with a number of challenges, not least of which is understanding the full implications of current events and time frames for equity market recovery. As a long term investor AFIC has taken some opportunities to buy selected stocks with good business franchises, primarily through capital raisings, to appropriately position the portfolio for an eventual improvement in economic conditions. However, the Company remains very cautious about how quickly global economic conditions will improve and the short term outlook for company profitability, including dividends. As a result, AFIC will be adopting a patient approach to investing its remaining cash position.

Please direct any enquiries to:

Bruce Teele
Chairman
(03) 9679 1361

Ross Barker
Managing Director
(03) 9924 0380

Geoff Driver
General Manager
(03) 9679 1659

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2008

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 31 December 2008

			Total Value \$ million
*	1	BHP BHP Billiton	436.4
	2	WBC Westpac Banking Corporation	300.4
*	3	CBA Commonwealth Bank of Australia	244.9
*	4	TLS Telstra Corporation	186.9
	5	NAB National Australia Bank	176.0
	6	WOW Woolworths	165.5
	7	WES [#] Wesfarmers	139.8
*	8	RIO Rio Tinto	93.2
	9	QBE QBE Insurance Group	92.4
	10	WPL Woodside Petroleum	86.1
*	11	ANZ Australia and New Zealand Banking Group	82.7
	12	ORG Origin Energy	78.2
*	13	STO Santos	70.0
	14	AGK AGL Energy	65.4
	15	CPU Computershare	63.6
	16	AMC Amcor	58.4
*	17	AMP AMP	56.0
*	18	OSH Oil Search	55.4
*	19	BXB Brambles	54.8
	20	WDC Westfield Group	51.6
	21	TCL Transurban Group	51.6
	22	TOL Toll Holdings	49.4
	23	IPL Incitec Pivot	44.7
	24	WAN West Australian Newspapers Holdings	44.0
	25	MLT Milton Corporation	41.6
		Total	<u><u>2,789.0</u></u>
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	79.3%

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

Includes \$25.2m Wesfarmers PPS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2008 with the previous corresponding period being the half-year ended 31 December 2007. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was \$134.0 million, 14% up from the previous corresponding period.
- Operating Profit after tax was \$107.8 million, 2.6% down from the previous corresponding period due to the net losses on the trading portfolio. In the opinion of Directors, this is the best measure of the Company's performance in deriving on-going investment and trading income from its portfolios.
- Net profit after tax was \$108.9 million (last year \$326.1 million, down 67%). This figure varies greatly from year-to-year as it includes realised capital gains from sales from the Company's Investment Portfolio. This was significantly lower than last year's figure and reflects the absence of major sales in comparison to the corresponding period last year when Coles Group and Rinker Group were taken over.
- The interim dividend is 8 cents per share, fully franked, the same as last year's interim dividend. It will be paid on 2 March 2009 to ordinary shareholders on the register on 16 February 2009 and the shares are expected to commence trading on an ex-dividend basis on 10 February 2009.
- The Company operates a Dividend Reinvestment Plan under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Shareholders should note that the Directors have determined that a discount should apply to the price of shares issued under the Dividend Reinvestment Plan for this interim dividend. Consequently, pricing of the new DRP shares will be based on 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 last day for the receipt of an election notice for participation in the plan is 16 February 2009.
- The final dividend for the 2008 financial year was 13 cents per share (fully franked), and it was paid to shareholders on 25 August 2008.
- 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 2008 were \$3.81, down from \$5.96 at the end of the previous corresponding period (both before allowing for interim dividends).



Australian Foundation
INVESTMENT COMPANY

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2008**

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:	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 2008 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.

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, decreased to \$107.8 million or 2.6% from the equivalent number of \$110.7 million last year, due to the losses on the trading portfolio. Revenue from investments was up \$16.5 million or 14%. The operating profit per share for the six months to 31 December 2008 was 11.1 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 2008 was \$108.9 million. This figure includes after tax profits on the sale of securities from the investment portfolio of \$1.1 million which are required to be included as profit under these standards.

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 9.

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.

A handwritten signature in blue ink, appearing to read 'Bruce B. Teele', is written over a faint, illegible stamp or watermark.

Bruce B. Teele
Chairman
Melbourne
28 January 2009

PricewaterhouseCoopers
ABN 52 780 433 757

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2 Southbank Boulevard
SOUTHBANK VIC 3006
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Telephone 61 3 8603 1000
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Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half year ended 31 December 2008, 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
28 January 2008

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Note	Half-year 2008 \$'000	Half-year 2007 \$'000
Dividends and distributions		123,926	112,581
Revenue from deposits and bank bills		8,370	3,598
Other revenue		1,746	1,399
Total revenue		134,042	117,578
Net gains/(losses) on trading portfolio		(21,619)	1,383
Income from operating activities before net gains on investments	3	112,423	118,961
Finance costs		(1,886)	(1,685)
Administration expenses		(6,137)	(5,260)
Operating profit before income tax expense and net gains on investments		104,400	112,016
Income tax credit/(expense)*		3,438	(1,322)
Net operating profit before net gains on investments		107,838	110,694
Net gains/(losses) on investments			
Net gains on Ordinary Securities sold from the investment portfolio		9,275	269,353
Net gains/(losses) on Other Securities		(1,719)	(1,140)
Tax expense on net gains on investments*		(6,489)	(52,769)
		1,067	215,444
Profit for the half-year		108,905	326,138
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company Ltd		108,827	326,103
Minority Interest		78	35
		108,905	326,138
		Cents	Cents
Basic earnings per share	8	11.19	33.87
Diluted earnings per share	8	11.19	33.87
		Half-year 2008 \$'000	Half-year 2007 \$'000
* Total Tax Expense		3,051	54,091

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

		31 Dec 2008 \$'000	30 June 2008 \$'000
	Note		
Current assets			
Cash		235,593	261,129
Receivables		11,701	44,043
Trading portfolio	4	66,018	126,602
Interest-rate hedging contracts		-	1,709
Total current assets		313,312	433,483
Non-current assets			
Fixtures & fittings		793	838
Investment portfolio		3,452,597	4,662,323
Deferred tax assets		9,548	4,424
Total non-current assets		3,462,938	4,667,585
Total assets		3,776,250	5,101,068
Current liabilities			
Payables		3,044	2,549
Tax payable		2,296	71,222
Borrowings		50,000	50,000
Provisions		190	1,314
Interest-rate hedging contracts		2,124	-
Total current liabilities		57,654	125,085
Non-current liabilities			
Provisions		364	217
Deferred tax liabilities - investment portfolio	5	347,495	722,683
Total non-current liabilities		347,859	722,900
Total liabilities		405,513	847,985
Net Assets		3,370,737	4,253,083
Shareholders' equity			
Share Capital	6	1,720,597	1,692,908
Revaluation Reserve		865,557	1,754,633
Realised Capital Gains Reserve		342,873	468,904
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		(2,124)	1,709
Retained Profits		420,027	311,200
Parent Entity Interest		3,370,567	4,252,991
Minority Interest		170	92
Total equity		3,370,737	4,253,083

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 2008

	Note	Half-year 2008 \$'000	Half-year 2007 \$'000
Total equity at the beginning of the half-year		4,253,083	4,759,721
Dividends paid	7	(126,031)	(124,745)
Shares issued - Dividend Reinvestment Plan		27,748	27,944
- To Minority Interests in Subsidiary		-	50
On-market share buy-backs		(14)	(12)
Other Share Capital Adjustments		(45)	(62)
Total transactions with share-holders		(98,342)	(96,825)
Revaluation of investment portfolio		(1,264,264)	(256,115)
Provision for tax on unrealised gains		375,188	39,307
Net unrealised gains/(losses) recognised directly in equity		(889,076)	(216,808)
Net movement in fair value for interest rate swaps		(3,833)	605
Profit for the half-year		108,905	326,138
Total recognised income (including unrealised gains & losses) & expense for the half-year		(784,004)	109,935
Total equity at the end of the half-year		3,370,737	4,772,831
Total recognised income and expense for the half-year is attributable to :			
Members of AFIC		(784,082)	109,900
Minority Interest		78	35
		(784,004)	109,935

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 2008

	Half-year 2008 \$'000	Half-year 2007 \$'000
	INFLOWS/ (OUTFLOWS)	INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	104,728	42,533
Purchases for trading portfolio	(51,829)	(73,821)
Interest received	7,050	3,705
Dividends and distributions received	123,650	131,278
	<u>183,599</u>	<u>103,695</u>
Other receipts	1,810	1,430
Administration expenses	(6,807)	(5,095)
Finance costs paid	(1,462)	(1,741)
Taxes paid	(72,095)	(12,505)
Net cash inflow/(outflow) from operating activities	<u>105,045</u>	<u>85,784</u>
Cash flows from investing activities		
Sales from investment portfolio	108,059	322,203
Purchases for investment portfolio	(140,473)	(125,258)
Payment for fixed assets	(19)	-
Net cash inflow/(outflow) from investing activities	<u>(32,433)</u>	<u>196,945</u>
Cash flows from financing activities		
Proceeds from borrowings	-	100,000
Repayment of borrowings	-	(100,000)
Share issues	-	50
Payment for shares bought back	(14)	(12)
Dividends paid	(98,134)	(96,589)
Net cash inflow/(outflow) from financing activities	<u>(98,148)</u>	<u>(96,551)</u>
Net increase/(decrease) in cash held	(25,536)	186,178
Cash at the beginning of the half-year	261,129	9,796
Cash at the end of the half-year	<u>235,593</u>	<u>195,974</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

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 2008 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. In addition, it is noted that *AASB 139 - Financial Instruments: Recognition and Measurement* requires the Company to assess at each reporting date whether there is any objective evidence that an investment in the investment portfolio is impaired. The Company's portfolio is regularly reviewed on an ongoing basis throughout the year. Where an investment is considered to be impaired it is either sold from the portfolio or an impairment charge is recognised through the income statement in accordance with AASB 139.

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

	Half-year 2008 \$'000	Half-year 2007 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	122,340	110,001
• securities held in trading portfolio	1,453	2,428
	<u>123,793</u>	<u>112,429</u>
Interest income		
• securities held in investment portfolio	133	152
• deposits and income from bank bills	8,370	3,598
	<u>8,503</u>	<u>3,750</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	1,698	96
• unrealised gains/(losses) in trading portfolio	(23,317)	1,287
	<u>(21,619)</u>	<u>1,383</u>
Administration fees	1,609	1,235
Other income	137	164
	<u>112,423</u>	<u>118,961</u>

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 \$2.7 million (30 June 2008 : \$7.2 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 \$56.5 million (30 June 2008: \$85.5 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 \$347.5 million (30 June 2008 : \$722.7 million). 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 2008 Shares '000	31 Dec 2008 \$'000	30 June 2008 Shares '000	30 June 2008 \$'000
(a) Share Capital				
Ordinary shares – fully paid	975,026	1,721,209	969,466	1,693,521
Less ELTIP shares adjustment	-	(612)	-	(613)
	975,026	1,720,597	969,466	1,692,908

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
01/07/2008	Opening Balance		969,466		1,693,521
25/08/2008	Dividend Reinvestment Plan	i	5,572	4.98	27,748
Various	Buy-backs	ii	(3)		(14)
15/08/2008	Cancellation of LTIP shares not vested		(9)		(46)
31/12/2008	Balance		975,026		1,721,209

- 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 2008 the Company had bought back 3,000 shares at an average price of \$4.55. During the corresponding period in 2007, 2,000 shares were bought back at an average price of \$5.95.

(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
01/07/2008	\$612,646	-	(\$163,787)	(\$27,325)	-	\$421,534
13/08/2008	-	\$212,130	(\$22,097)	-	-	\$190,033
<i>Total</i>	\$612,646	\$212,130	(\$185,884)	(\$27,325)	-	\$611,567

7. Dividends

**Half-year
2008
\$000** **Half-year
2007
\$000**

Dividends paid during the period 126,031 124,745

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 2 March 2009, but not recognised as a liability at the end of the half-year is

78,002

8. Earnings per Share

**Half-year
2008** **Half-year
2007**

Weighted average number of ordinary shares used as the denominator **Number** **Number**
973,333,936 963,016,893

Basic earnings per share

Profit attributable to members of the company **\$'000** **\$'000**
108,905 326,138

Basic earnings per share **Cents** **Cents**
11.19 33.87

Net operating profit per share

Net operating profit **\$'000** **\$'000**
107,838 110,694

Net operating profit per share **Cents** **Cents**
11.08 11.49

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 2008 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.

10. 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.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 10 to 17 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 2008 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
28 January 2009

**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 2008, 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 (the company) 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 2008 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>.

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.

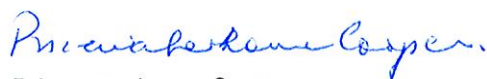
Independence

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 2008 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



David Coogan
Partner

Melbourne
28 January 2008