Australian Foundation

INVESTMENT COMPANY

ABN 56 004 147 120

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2009

CONTENTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2009 with the corresponding period being the year ended 30 June 2008.

This report is based on audited financial statements. A copy of the audit report can be found on page 37.

Results for announcement to the market

- Revenue from operating activities was $230.7 million, 0.7% down from the prior year.

- Operating profit after tax was $199.6 million, 2.7% down from the prior year.

- Net profit (including capital gains and AASB 139 'impairment' revaluation charge) was $103.5 million, 75.1% down from the prior year. Excluding the $107.8 million AASB 139 'impairment' revaluation charge, the profit would have been $211.3 million.

- A fully-franked final dividend of 13 cents per share will be paid on 1 September 2009 to shareholders on the register on 17 August 2009. The shares are expected to trade ex-dividend on 11 August 2009. The final dividend carries with it an attributable LIC capital gain of 3.0 cents will enable most shareholders to benefit from claiming a deduction in their tax return. Further details will be on the dividend statement.

- The interim dividend of 8 cents per share was paid to shareholders on 2 March 2009.

- The total dividend for the financial year is therefore 21 cents, fully-franked, the same as last year.

- Net tangible assets per share as at 30 June 2009, before allowing for the final dividend, were $4.06 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2008: $5.13).

- A Dividend Reinvestment Plan (DRP) is available, the price for which will be set at a **5% discount** to 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 17 August 2009.

RUSH OF NEW ISSUES PROVIDE OPPORTUNITIES FOR GROWTH

MEDIA RELEASE - FULL YEAR RESULT TO 30 JUNE 2009

27 July 2009

The Company took a cautious approach to investing given the difficult market conditions which prevailed throughout the year. During the period we maintained a relatively high cash balance, however we did seek to take advantage of the large number of capital raisings which were on offer, particularly through the second half of the financial year. These issues were typically completed at attractive discounts to the then prevailing market prices and therefore provided good opportunities for long term investors such as AFIC. The major investments by AFIC over the period were in the issues undertaken by Australian Infrastructure Fund, ANZ Bank, Commonwealth Bank, Incitec Pivot, National Australia Bank, QBE Insurance, Rio Tinto, Santos and Westpac.

AFIC's portfolio was not insulated from the severe downturn in markets. However the benefit of the investment approach taken by AFIC has been evident through the performance of the portfolio during this period as well as over the long term.

Over the 12 months to 30 June 2009 AFIC's portfolio declined 16.9% whereas the S&P/ASX 200 Accumulation Index was down 20.1%. Over 10 years the annualised return figures are positive 8.5% for AFIC and 7.4% for the Index. Note the performance figures for AFIC are after expenses and tax paid by the Company whereas the Index comparisons do not bear such costs.

The major sales during the 12 month period 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 exit its positions in ConnectEast, James Hardie, News Corporation, Paperlinx and Suncorp-Metway over this period given our concerns about gearing levels and or the potential level of available franked dividends from these companies.

Profit

The Net Operating Profit was down marginally to $199.6 million from $205.1 million last year. Income from investments, including franked dividends, and deposit interest were generally in line with last year's result although this was offset by a small negative contribution from the Trading Portfolio because of declining equity values.

AFIC has maintained its fully franked final dividend at 13 cents per share despite the extremely difficult market conditions that investors have had to contend with during the financial year. The investment focus of AFIC and the benefits of the traditional listed investment company business model have provided a sound base from which to maintain the dividend this year.

Profit after Tax was $103.5 million, down from $416.1 million last year. This figure declined as a result of two factors. Realised gains after tax this year were $11.7 million whereas last year this figure was $211.1 million. Last years figure included the sale of Rinker Group and Coles Group because of takeovers. Under the Accounting Standards the large fall in share prices below the cost base of some stocks in AFIC's portfolio has also required the Company to take an after tax charge of $107.8 million to the Profit after Tax for "impairment". It should be noted that all of AFIC's investments are revalued continuously to market value in our accounts. This "impairment" charge reflects the negative changes in market value of certain stocks below their original cost. It does not change the value of AFIC's portfolio or its net asset backing.

Outlook

We remain relatively cautious in the present environment, particularly now the market has made some gains since the very low market levels experienced in March.

Economic conditions in Australia and globally are likely to remain subdued in the medium term. The ability of companies to generate reasonable returns in this environment is likely to be severely tested. As a result, we will be looking to the upcoming reporting season to make an assessment of how companies are dealing with these challenges and the immediate term outlook for dividends.

However, we believe AFIC's portfolio is well positioned with a number of companies likely to emerge from this period with stronger operations and with the underlying value of their business franchises well intact. At 30 June 2009 AFIC had $249.1 million of cash available for investment into the market.

Please direct any enquiries to:

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Chairman	Managing Director	General Manager
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MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

A.	**Acquisitions (above $5 million)**	**Cost ($'000)**
	Westpac Banking Corporation (a)	84,867
	Rio Tinto	34,805
	Santos	25,592
	National Australia Bank	23,160
	QBE Insurance Group	17,900
	Commonwealth Bank of Australia	16,691
	Australia and New Zealand Banking Group	13,748
	Incitec Pivot	12,458
	Australian Infrastructure Fund	10,701
	Alumina	8,952
	Nufarm	7,713
	Tox Free Solutions	7,444
	Woodside Petroleum	6,933
	Orica	6,273
	Iluka Resources	5,325
B.	**Disposals (above $5 million)**	**Proceeds ($'000)**
	St George Bank (b)	54,381
	Queensland Gas Company (c)	46,000
	Suncorp-Metway	29,252
	James Hardie Industries NV	24,954
	ConnectEast Group	21,305
	PaperlinX	8,167
	News Corporation Non-Voting	8,111
	Wesfarmers	7,248
	Brickworks 6.565% Reset Non-Cumulative Converting Preference (d)	7,000
	News Corporation	6,158

(a) Includes shares received as a result of the takeover of St. George Bank
(b) Takeover by Westpac Banking Corporation
(c) Sold on-market into the takeover by BG Group plc
(d) Redeemed by the Company

TOP 25 INVESTMENTS AS AT 30 JUNE 2009

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 30 June 2009

			Total Value $ million
*	1	BHP Billiton	494.6
	2	Westpac Banking Corporation	358.4
	3	Commonwealth Bank of Australia	330.4
	4	National Australia Bank	189.3
	5	Rio Tinto (a)	186.5
	6	Wesfarmers (b)	172.6
	7	Telstra Corporation	165.5
	8	Woolworths	163.5
*	9	Australia & New Zealand Banking Group	104.0
	10	Woodside Petroleum	102.9
*	11	Santos	98.3
	12	QBE Insurance Group	78.1
	13	Computershare	73.6
	14	Origin Energy	71.1
*	15	Oil Search	65.1
	16	AGL Energy	57.7
	17	Orica	54.5
*	18	AMP	50.4
	19	Amcor	50.2
	20	Toll Holdings	50.0
	21	Brambles	45.8
	22	Westfield Group	45.4
	23	Incitec Pivot	42.7
	24	Milton Corporation	41.8
	25	Transurban Group	39.9
		Total	3,132.3
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	82.5%

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

(a) Includes $64.2 million of RIO new shares
(b) Includes $32.9 million of WES partially protected securities

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Dividends and distributions		214,874	217,402	214,874	217,402
Revenue from deposits and bank bills		12,335	11,963	12,266	11,878
Other revenue		3,465	2,994	74	18
Total revenue		**230,674**	**232,359**	**227,214**	**229,298**
Net losses on trading portfolio		(12,548)	(7,608)	(12,548)	(7,608)
Income from operating activities before net gains on investments		**218,126**	**224,751**	**214,666**	**221,690**
Finance costs		(3,812)	(3,425)	(3,812)	(3,425)
Administration expenses		(11,282)	(10,676)	(8,832)	(7,786)
Operating profit before income tax expense and net gains on investments	**5**	**203,032**	**210,650**	**202,022**	**210,479**
Income tax expense*	**6**	(3,480)	(5,596)	(3,182)	(5,601)
Net operating profit before net gains on investments		**199,552**	**205,054**	**198,840**	**204,878**
Net gains/(losses) on investments					
Net gains on Ordinary Securities sold from the investment portfolio		16,702	295,360	16,702	295,360
Net gains/(losses) on Other Securities		450	(3,896)	450	(3,896)
Tax expense on net gains on investments*	**6**	(5,432)	(80,377)	(5,432)	(80,377)
AASB 139 'impairment' revaluation charge on investment portfolio	**4**	(153,990)	-	(153,990)	-
Tax credit on AASB 139 'impairment' revaluation charge*	**4**	46,197	-	46,197	-
		(96,073)	211,087	(96,073)	211,087
Profit for the year		**103,479**	**416,141**	**102,767**	**415,965**
Profit is attributable to :					
Equity holders of Australian Foundation Investment Company Ltd		103,301	416,099	102,767	415,965
Minority interest		178	42	-	-
		103,479	**416,141**	**102,767**	**415,965**
		Cents	**Cents**		
Basic and diluted earnings per share		10.61	43.11		

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 27.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
* Total tax expense/(credit) for the year	(37,285)	85,973	(37,583)	85,978

BALANCE SHEET AS AT 30 JUNE 2009

		Consolidated		Parent Entity	
		2009	2008	2009	2008
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash	7	249,108	261,129	246,367	259,286
Receivables	8	28,371	44,043	28,442	44,121
Tax Overpayment Receivable		7,433	-	7,541	-
Trading portfolio	9	24,064	126,602	24,064	126,602
Interest-rate Hedging Contracts	22	-	1,709	-	1,709
Total current assets		**308,976**	**433,483**	**306,414**	**431,718**
Non-current assets					
Fixtures & fittings	10	726	838	726	838
Investment portfolio	11	3,770,906	4,662,323	3,770,906	4,662,323
Deferred tax assets	16	-	4,424	-	3,929
Total non-current assets		**3,771,632**	**4,667,585**	**3,771,632**	**4,667,090**
Total assets		**4,080,608**	**5,101,068**	**4,078,046**	**5,098,808**
Current liabilities					
Payables	12	46,547	2,549	46,573	2,310
Tax payable		-	71,222	-	70,970
Borrowings	7	50,000	50,000	50,000	50,000
Provisions	13	1,874	1,314	-	-
Interest-rate Hedging Contracts	22	1,455	-	1,455	-
Total current liabilities		**99,876**	**125,085**	**98,028**	**123,280**
Non-current liabilities					
Provisions	14	404	217	-	-
Deferred tax liabilities - investment portfolio	15	419,492	722,683	419,492	722,683
Deferred tax liabilities - other	16	274	-	914	-
Total non-current liabilities		**420,170**	**722,900**	**420,406**	**722,683**
Total liabilities		**520,046**	**847,985**	**518,434**	**845,963**
Net Assets		**3,560,562**	**4,253,083**	**3,559,612**	**4,252,845**
Shareholders' equity					
Share Capital	17	1,737,790	1,692,908	1,737,790	1,692,908
Revaluation Reserve	19	1,120,948	1,754,633	1,120,948	1,754,633
Impairment Revaluation Charge Reserve	24	(107,793)	-	(107,793)	-
Realised Capital Gains Reserve	20	354,278	468,904	354,278	468,904
General Reserve	21	23,637	23,637	23,637	23,637
Interest-rate Hedging Reserve	22	(1,455)	1,709	(1,455)	1,709
Retained Profits	23	432,887	311,200	432,207	311,054
Parent Entity Interest		**3,560,292**	**4,252,991**	**3,559,612**	**4,252,845**
Minority Interest		270	92	-	-
Total Equity		**3,560,562**	**4,253,083**	**3,559,612**	**4,252,845**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Total equity at the beginning of the year		**4,253,083**	**4,759,721**	**4,252,845**	**4,759,709**
Dividends paid	**26**	(204,033)	(201,898)	(204,033)	(201,898)
Shares issued					
- Dividend Reinvestment Plan	**26**	44,795	45,390	44,795	45,390
- Share Acquisition Plan	**17**	-	9,173	-	9,173
- To minority interests		-	50	-	-
On-market share buy-backs	**17**	(14)	(28)	(14)	(28)
Other Share Capital Adjustments	**17**	101	(575)	101	(575)
Total transactions with shareholders		**(159,151)**	**(147,888)**	**(159,151)**	**(147,938)**
Revaluation of investment portfolio		(1,049,706)	(1,081,524)	(1,049,706)	(1,081,524)
Provision for tax on unrealised gains		308,228	305,926	308,228	305,926
Transfer to income statement for AASB 139 'impairment' revaluation charge		153,990	-	153,990	-
Tax credit on AASB 139 'impairment' revaluation charge		(46,197)	-	(46,197)	-
Net unrealised gains/(losses) recognised directly in equity	**19**	(633,685)	(775,598)	(633,685)	(775,598)
Profit for the year		103,479	416,141	102,767	415,965
Net movement in fair value for interest rate swaps	**22**	(3,164)	707	(3,164)	707
Total recognised income (including unrealised gains) & expense for the year		**(533,370)**	**(358,750)**	**(534,082)**	**(358,926)**
Total equity at the end of the financial year		**3,560,562**	**4,253,083**	**3,559,612**	**4,252,845**

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		Parent Entity	
	Note	2009 $'000 INFLOWS/ (OUTFLOWS)	2008 $'000 INFLOWS/ (OUTFLOWS)	2009 $'000 INFLOWS/ (OUTFLOWS)	2008 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities					
Sales from trading portfolio		251,274	140,876	251,274	140,876
Purchases for trading portfolio		(143,887)	(152,804)	(143,887)	(152,804)
Interest received		11,803	12,174	11,734	12,088
Dividends and distributions received		186,178	207,426	186,178	207,426
		305,368	207,672	305,299	207,586
Other receipts/(payments)		3,515	2,990	74	(78)
Administration expenses		(11,537)	(9,518)	(9,513)	(7,366)
Finance costs paid		(2,934)	(3,542)	(2,934)	(3,542)
Taxes paid		(19,467)	(10,802)	(18,879)	(10,559)
Net cash inflow/(outflow) from operating activities	**32**	**274,945**	**186,800**	**274,047**	**186,041**
Cash flows from investing activities					
Sales from investment portfolio		168,057	441,859	168,057	441,859
Purchases for investment portfolio		(231,513)	(220,782)	(231,513)	(220,782)
Taxes paid on capital gains		(63,741)	(8,471)	(63,741)	(8,471)
Loan to subsidiary repaid		-	-	-	200
Payment for fixed assets		(18)	(123)	(18)	(123)
Net cash inflow/(outflow) from investing activities		**(127,215)**	**212,483**	**(127,215)**	**212,683**
Cash flows from financing activities					
Proceeds from borrowings		200,000	200,000	200,000	200,000
Repayment of borrowings		(200,000)	(200,000)	(200,000)	(200,000)
Share issues		-	9,223	-	9,173
Share issues transaction costs		(68)	(693)	(68)	(693)
Payment for shares bought back		(14)	(28)	(14)	(28)
Dividends paid		(159,669)	(156,452)	(159,669)	(156,452)
Net cash inflow/(outflow) from financing activities		**(159,751)**	**(147,950)**	**(159,751)**	**(148,000)**
Net increase/(decrease) in cash held		(12,021)	251,333	(12,919)	250,724
Cash at the beginning of year		261,129	9,796	259,286	8,562
Cash at the end of year	**7**	**249,108**	**261,129**	**246,367**	**259,286**

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

1. Summary of significant accounting policies

This general purpose 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 (“AFIC”). This financial report includes separate financial statements for AFIC as an individual entity and the consolidated entity consisting of AFIC and its subsidiary. 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 not applied any 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 2009 (“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 2009, and its results for the year then ended. AICS is a 75% owned subsidiary of the Company. No other subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

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 9.

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.

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) Impairment of assets in the Investment Portfolio

When the market value of a stock that is held in the investment portfolio is below its cost, it is reviewed for impairment. *AASB 139 – Financial Instruments : Recognition and Measurement* states that impairment has occurred if there has been a 'loss event or events' that have an impact on the future cash flows of the financial asset that can be reliably estimated.

When 'impairment' is held to have occurred, the amount of the loss that has been taken through the Revaluation Reserve is reversed and instead is taken through the Income Statement. Any subsequent increase in the market value of a stock thus impaired does not go through the Income Statement, however, but will be accounted for through the Revaluation Reserve whilst any further decrease will continue to be accounted for through the Income Statement.

The Investment Committee regularly reviews the stocks in the Investment Portfolio, and where it believes that such an event has occurred or is likely to occur, will seek to exit the position. Should that position not be exited by the balance sheet date, an impairment charge may be taken to the Income Statement as described above.

The Company is a long-term investor, and does not regard short-term or cyclical movements in the share-price of its investments as evidence of impairment. However, the relevant Accounting Standard also states that a "significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment." The Group's approach to this and the resultant charge are set out in Note 4.

i) 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.

The Investment Team Annual Incentive plans are settled on a cash basis.

(iv) Share incentives

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

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.

Shares acquired to satisfy obligations under the Executive Long Term Incentive plans 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.

j) 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.

k) 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.

l) 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.

m) Interest-rate swaps

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.

n) 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.

o) Rounding of amounts

The Group is of the kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments 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 15. 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.

The issue of whether any of the Group’s investments are impaired is also a matter requiring judgement. Refer to Note 4 for the Group’s approach in relation to this and the resulting charge.

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. Profit excluding impairment

The accounts include an impairment charge of $107.8 million for the year.

This charge is based on an interpretation of *AASB 139 – Financial Instruments : Recognition and Measurement* that takes as its starting point that, subject to other evidence to the contrary and judgement, an investment is impaired if it has been below its accounting cost for a minimum of 15 months or if the fair value of the investment is more than 35% below its accounting cost.

AFIC is an investment company that has invested on behalf of its shareholders for over 80 years. It takes a long-term view of investments, and does not believe that share prices in a cyclical downturn (or indeed upturn) necessarily reflect the long-term fair value of the underlying businesses and assets that it invests in.

If, in the Directors' opinion, an investment has become impaired due to significant changes to that particular holding, that investment is divested from the Portfolio. Any 'impairment' charge would therefore be reflected in the Net gains or losses on investments sold from the investment portfolio.

The Directors believe that the interpretation of the standard used in the financial statements, and its application, does not reflect the long-term nature of the Company's portfolio.

In addition, there is no current intention to sell any of the assets in the investment portfolio, and the Directors do not consider that there is sufficient or reliable evidence to indicate that at some point in the medium to long term, any investments currently held will not recover their cost. Therefore, in the Directors' view, to take a 'realised' loss on an investment that the Directors have no current intention of selling does not accurately reflect the performance of the Company during the financial year.

It should be noted that any impairment charge that is taken on equity investments held by the Company cannot, under current Accounting Standards, be reversed back through the Income Statement when the market price recovers, but must be revalued through the Balance Sheet. The impairment charge is thus permanent until such time as the asset is sold.

Shareholders should note that all investments are continuously marked-to-market. Any impairment charge taken on investments that are not disposed of by the Company therefore has no impact on the Net Tangible Assets or shareholders' equity.

Directors note that the International Accounting Standard 39/AASB 139 upon which this definition of impairment is based is being revised with effect from before the end of the current calendar year. This may lead to changes in the way that fair value movements on the Company's investments are recorded. The Company will monitor developments and make the necessary announcements once the new standard is finalised.

The Directors have presented below an alternative presentation of the Company's performance which, in their view, more clearly presents the actual performance of the Company :

	Consolidated Alternate Treatment		Consolidated Statutory Accounts	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Net operating profit before net gains on investments	**199,552**	**205,054**	**199,552**	**205,054**
Net gains/(losses) on investments				
Net gains on Ordinary Securities sold from the investment portfolio	16,702	295,360	16,702	295,360
Net gains/(losses) on Other Securities	450	(3,896)	450	(3,896)
Tax expense on net gains on investments	(5,432)	(80,377)	(5,432)	(80,377)
AASB 139 "impairment" revaluation charge	-	-	(153,990)	-
Tax credit on AASB 139 "impairment" revaluation charge	-	-	46,197	-
	11,720	211,087	(96,073)	211,087
Profit for the year	**211,272**	**416,141**	**103,479**	**416,141**

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

	Consolidated		Parent Entity	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Dividends and distributions				
• securities held in investment portfolio	212,753	211,945	212,753	211,945
• securities held in trading portfolio	1,912	5,174	1,912	5,174
	214,665	217,119	214,665	217,119
Interest income				
• securities held in investment portfolio	209	283	209	283
• income from cash investments	12,335	11,963	12,266	11,878
	12,544	12,246	12,475	12,161
Net gains/(losses) and write downs				
• net gains/(losses) from trading portfolio	(10,044)	9,516	(10,044)	9,516
• unrealised losses from trading portfolio	(2,504)	(17,124)	(2,504)	(17,124)
	(12,548)	(7,608)	(12,548)	(7,608)
Administration fees	3,383	2,882	-	-
Other income	82	112	74	18
	3,465	2,994	74	18
Income from operating activities before net gains on investments	**218,126**	**224,751**	**214,666**	**221,690**
Finance costs	(3,812)	(3,425)	(3,812)	(3,425)
Rental expense relating to non-cancellable operating leases	(474)	(454)	-	-
Employee benefits expense	(6,515)	(5,347)	(651)	(567)
Depreciation charge	(130)	(102)	(130)	(102)
Other administration expenses	(4,163)	(4,773)	(8,051)	(7,117)
Operating profit before income tax expense and net gains on investments	**203,032**	**210,650**	**202,022**	**210,479**

Further information relating to remuneration of auditors is set out in Note 31, Directors and Executives in Note 28.

6. Tax expense

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

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
Operating profit before income tax expense and net gains on investments	**203,032**	**210,650**	**202,022**	**210,479**
Tax at the Australian tax rate of 30% (2008 – 30%)	60,910	63,195	60,607	63,144
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :				
Tax offset for franked dividends	(54,730)	(51,901)	(54,730)	(51,901)
Non-taxable distributions	(3,740)	(4,114)	(3,740)	(4,114)
Sundry items	760	(1,237)	853	(1,181)
	3,200	**5,943**	**2,990**	**5,948**
Under (over) provision in prior years	280	(347)	192	(347)
Income tax expense on operating profit before net gains on investments	**3,480**	**5,596**	**3,182**	**5,601**
Net gains on investments	**17,152**	**291,464**	**17,152**	**291,464**
Tax at the Australian tax rate of 30% (2008 – 30%)	5,146	87,439	5,146	87,439
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :				
Differences between accounting and tax cost bases for capital gains purposes	(152)	(4,181)	(152)	(4,181)
Under (over) provision in prior years	438	(2,881)	438	(2,881)
Tax expense on net gains on investment portfolio	**5,432**	**80,377**	**5,432**	**80,377**
Tax credit on AASB 139 'impairment' revaluation charge	**(46,197)**	**-**	**(46,197)**	**-**
Total tax expense/(credit)	**(37,285)**	**85,973**	**(37,583)**	**85,978**

(b) Tax expense composition

Charge for tax payable relating to the current year	3,361	99,629	3,006	99,363
Under (over) provision in prior years	718	(3,228)	630	(3,228)
Increase (decrease) in deferred tax liabilities – investment portfolio	135	(984)	135	(984)
Increase (decrease) in deferred tax liabilities - other	4,698	(9,444)	4,843	(9,173)
Tax credit on AASB 139 'impairment' revaluation charge	(46,197)	-	(46,197)	-
	(37,285)	**85,973**	**(37,583)**	**85,978**

(c) Amounts recognised directly in equity

Increase (decrease) in deferred tax liabilities relating to capital gains tax on the movement in unrealised gains on Ordinary Securities in the investment portfolio	(308,228)	(305,926)	(308,228)	(305,926)
	(308,228)	**(305,926)**	**(308,228)**	**(305,926)**

7. Current assets – cash

Cash at bank and in hand	107	57	52	3
Fixed Term Deposits	249,001	261,072	246,315	259,283
	249,108	261,129	246,367	259,286

Cash holdings yielded an average floating interest rate of 5.12% (2008: 7.3%).

(a) Credit risk exposure

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks. (2008 : with Goldman Sachs JBWere's Australian $ Cash Reserves Fund rated AAAm by S&P and 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.

(b) Standby arrangements and credit facilities

The Group is party to agreements under which Commonwealth Bank of Australia and the National Australia Bank will extend a cash advance facility. During the year, the Group decided to reduce its debt facilities.

	Consolidated		Parent Entity	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Commonwealth Bank of Australia –cash advance facility	75,000	150,000	75,000	150,000
Amount drawn down	50,000	50,000	50,000	50,000
Undrawn facilities	25,000	100,000	25,000	100,000
National Australia Bank- cash advance facility (2008 : floating rate bill facility)	25,000	50,000	25,000	50,000
Amount drawn down	-	-	-	-
Undrawn facilities	25,000	50,000	25,000	50,000
Total short-term loan facilities	100,000	200,000	100,000	200,000
Total drawn down	50,000	50,000	50,000	50,000
Total undrawn facilities	50,000	150,000	50,000	150,000

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

8. Current assets – receivables

Dividends and distributions receivable	25,307	32,790	25,307	32,790
Interest receivable/pre-paid	855	827	741	827
Outstanding settlements – Investment portfolio	1,982	-	1,982	-
Outstanding settlements – Trading portfolio	80	10,273	80	10,273
Other receivables/pre-payments	147	153	332	231
	28,371	44,043	28,442	44,121

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.

9. Current assets – trading portfolio

Listed securities at market value				
- shares and trust units	24,809	133,171	24,809	133,171
- Options sold by the Group				
• Calls	(745)	(5,974)	(745)	(5,974)
• Puts	-	(595)	-	(595)
	24,064	126,602	24,064	126,602

The total of the trading portfolio, which is defined as "assets held for trading" and hybrids, which are defined as “assets measured at fair value through the income statement”, is $49.9 million (2008 : $166.5 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. Options are valued at a theoretical price which is obtained from an independent third-party data provider.

As at balance date the Group had no sold put options outstanding (2008: $7.2 million exposure). 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 $26.8 million (2008: $85.5 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.

$79.2 million of shares are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Group (2008: $40.9 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.

10. Non-current assets – fixtures & fittings

	Consolidated		Parent Entity	
	2009 $’000	2008 $’000	2009 $’000	2008 $’000
Opening Balance	838	816	838	816
Additions	18	124	18	124
Depreciation charge	(130)	(102)	(130)	(102)
Book cost of furniture and fittings, plus leasehold expenses	726	838	726	838

11. Non-current assets – investment portfolio

	Consolidated 2009 $’000	Consolidated 2008 $’000	Parent Entity 2009 $’000	Parent Entity 2008 $’000
Listed securities				
- shares at market value	3,745,024	4,622,462	3,745,024	4,622,462
- converting and convertible notes and other interest bearing securities at market value	25,882	39,861	25,882	39,861
	3,770,906	4,662,323	3,770,906	4,662,323

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 of the remainder, which are defined as “assets available for sale”, is $3,745.0 million (2008: $4,622.5 million).

12. Current liabilities - payables	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Dividends payable	148	579	148	579
Outstanding settlements – Investment portfolio	42,626	-	42,626	-
Outstanding settlements – Trading portfolio	2,880	-	2,880	-
Directors' retirement benefits	567	681	567	681
Other payables	326	1,289	352	1,050
	46,547	2,549	46,573	2,310

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

Movement on amount payable for Directors retirement benefits during the year :

Opening balance	681	681	681	681
Amount paid during year	(114)	-	(114)	-
	567	681	567	681

13. Current liabilities – provisions

Employee entitlements	1,874	1,314	-	-
	1,874	1,314	-	-

14. Non-current liabilities – provisions

Employee entitlements	404	217	-	-
	404	217	-	-

15. Deferred tax liabilities – investment portfolio

Deferred tax liabilities on unrealised gains in the investment portfolio	419,492	722,683	419,492	722,683
Movements:				
Opening balance at 1 July	722,683	1,012,930	722,683	1,012,930
(Credited)/charged to Income Statement for securities that contain a derivative element (eg Convertible Notes)	135	(984)	135	(984)
Accounting charge for tax on scrip-for-scrip acquisitions	4,902	16,663	4,902	16,663
(Credited)/charged to equity for ordinary securities	(308,228)	(305,926)	(308,228)	(305,926)
	419,492	722,683	419,492	722,683

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

16. Deferred tax liabilities - other

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000

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:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
(a) The difference in the value of the trading portfolio for tax and accounting purposes	1,194	(1,962)	1,194	(1,962)
(b) Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	(395)	(1,946)	(395)	(1,946)
(c) Provisions and expenses charged to the accounting profit which are not yet tax deductible	(1,007)	(955)	(319)	(460)
(d) Interest and dividend income receivable which is not assessable for tax until receipt	482	439	434	439
	274	(4,424)	914	(3,929)
Movements:				
Opening balance at 1 July	(4,424)	5,020	(3,929)	5,244
(Credited)/charged to Income statement	4,698	(9,444)	4,843	(9,173)
	274	(4,424)	914	(3,929)

Any deferred tax asset 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 deferred tax liability likely to be reversed within the next 12 months is $1.2 million (2008: $3.6 million asset). This relates primarily to items described in items (a), (b) and (d) above.

17. Shareholders' equity – share capital

(a) Share capital

	Consolidated and Parent Entity 2009 Shares '000	Consolidated and Parent Entity 2009 $'000	Consolidated and Parent Entity 2008 Shares '000	Consolidated and Parent Entity 2008 $'000
Ordinary shares – fully paid	979,601	1,738,233	969,466	1,693,521
Less ELTIP shares adjustment	-	(443)	-	(613)
	979,601	1,737,790	969,466	1,692,908

There are no shares that have not been fully paid, all shares rank *pari passu* and have no par value.

(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
1/07/2007	Balance		959,576		1,639,677
22/08/2007	Dividend Reinvestment Plan	i	4,835	5.78	27,945
27/02/2008	Dividend Reinvestment Plan	i	3,316	5.26	17,445
11/04/2008	Share Acquisition Plan		1,744	5.26	9,173
Various	Buy-backs	ii	(5)		(28)
Various	Cost of share issues		-		(691)
30/06/2008	Balance		969,466		1,693,521
25/08/2008	Dividend Reinvestment Plan	i	5,572	4.98	27,748
02/03/2009	Dividend Reinvestment Plan	i	4,583	3.72	17,047
Various	Cancellation of unvested shares	ii	(17)		(69)
Various	Buy-backs	ii	(3)		(14)
30/06/2009	Balance		979,601		1,738,233

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 2009 financial year the Group had bought back 3,000 shares (2008: 5,000 shares) at an average price of $4.55 (2008: $5.56). The cancellation of unvested shares relates to shares forfeited under the rules of the ELTIP and cancelled due either to resignation or to vesting targets not having been met.

(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
2007/8	*Mar 2004*	34,574	-	34,574	-	-	0
	Oct 2004	31,147	-	24,920	-	-	6,227
	Apr 2005	14,341	-	8,194	-	-	6,147
	Oct 2005	65,313	-	29,028	-	-	36,285
	Mar 2006	56,233	-	21,087	-	-	35,146
	Aug 2006	54,546	-	16,216	-	-	38,330
	Oct 2006	104,052	-	32,016	-	-	72,036
	Feb 2007	368,432	-	140,494	-	-	227,938
	Aug 2007	-	247,183	56,646	-	-	190,537
	Total for 2007/2008	728,638	247,183	363,175	-	-	612,646
2008/9	*Oct 2004*	6,227	-	6,227	-	-	0
	Apr 2005	6,147	-	6,147	-	-	0
	Oct 2005	36,285	-	29,028	-	-	7,257
	Mar 2006	35,146	-	21,087	-	-	14,059
	Aug 2006	38,330	-	13,022	11,774	-	13,534
	Oct 2006	72,036	-	32,016	-	-	40,020
	Feb 2007	227,938	-	140,494	-	-	87,444
	Aug 2007	190,537	-	57,352	15,551	-	117,634
	Aug 2008	-	212,130	48,614	-	-	163,516
	Total for 2008/2009	612,646	212,130	353,987	27,325	-	443,464

18. Capital Management

The Company's objectives in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully-ranked dividends and enhancement of capital invested, with goals of paying dividends which over time grow faster than the rate of inflation and providing attractive total returns over the medium to long term.

The Company recognises that its capital will fluctuate in accordance with market conditions, and may adjust the amount of dividends paid, issue new shares from time to time or buy-back its own shares or sell assets to reduce debt.

The Company's capital consists of its shareholders equity less the fair value of the interest-rate swaps, plus any net borrowings. The change in this capital is as noted in notes 7 b), 17, 19, 20, 21, 23 and 24.

19. Revaluation Reserve

	Consolidated		Parent Entity	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening balance at 1 July	1,754,633	2,530,231	1,754,633	2,530,231
Revaluation of investment portfolio	(1,049,706)	(1,081,524)	(1,049,706)	(1,081,524)
Provision for tax on unrealised gains	308,228	305,926	308,228	305,926
Transfer of AASB 139 'impairment' revaluation to Income Statement	153,990	-	153,990	-
Provision for tax on above	(46,197)	-	(46,197)	-
	1,120,948	1,754,633	1,120,948	1,754,633

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). As no gains or losses have been realised on these investments, this reserve is not available for distribution.

20. Realised Capital Gains Reserve

Opening balance at 1 July	468,904	271,883	468,904	271,883
Dividends paid	(126,031)	(16,793)	(126,031)	(16,793)
Transfer from retained profits	11,405	213,814	11,405	213,814
	354,278	468,904	354,278	468,904

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.

21. General Reserve

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

22. Interest-rate swaps

Fair value of Interest-rate swap agreements	(1,455)	1,709	(1,455)	1,709

The Company has entered into interest-rate hedging contracts at a rate of 6.095% 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. They cover 100% of the loan principal outstanding.

23. Retained Profits

	Consolidated		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
Opening balance at 1 July	311,200	294,020	311,054	294,008
Dividends paid	(78,002)	(185,105)	(78,002)	(185,105)
Statutory Profit for the year	103,301	416,099	102,767	415,965
Transfer to impairment revaluation charge reserve	107,793	-	107,793	-
Transfer to realised capital gains reserve	(11,405)	(213,814)	(11,405)	(213,814)
	432,887	311,200	432,207	311,054

This reserve relates to past profits and may be distributed as cash dividends at the discretion of Directors. The amount of the Retained Profits reserve of $432.9m (Parent : $432.2m) is after the transfer out of the AASB 139 'impairment' revaluation charge which has been required under the Accounting Standards to be charged to the Income Statement. Before this transfer, the amount of the reserve would have been $325.1 million (Parent : $324.4m).

24. Impairment Revaluation Charge Reserve

Opening balance at 1 July	-	-	-	-
Transfer from Revaluation Reserve	(107,793)	-	(107,793)	-
	(107,793)	-	(107,793)	-

This reserve relates to the AASB 139 'impairment' revaluation charge that the Group has been required to take through the Income Statement. See Note 4.

25. Financial Risk Management

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

<u>Credit risk</u>

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 7 a), 8, 9 a) & 11 with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are over-due.

<u>Liquidity risk</u>

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 very 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 7 b) & 12. All borrowing facilities are drawn for a period no longer than 90 days.

<u>Market risk</u>

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 and trading portfolio would lead to a reduction in the Group's equity of $132.8 million and $265.6 million respectively, at a tax rate of 30%. The fall in the Trading Portfolio would lead to a reduction in profit after-tax of $0.8 million and $1.7 million respectively. The Revaluation Reserve at 30 June 2009 was $1.1 billion. It would require a fall in the value of the Investment Portfolio of 42% 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, unless such falls were deemed to be an impairment charge in which case they would be reversed out of the Revaluation Reserve and taken through the Income Statement.

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:

	2009	**2008**
Energy	8.67%	9.26%
Materials	22.72%	27.34%
Industrials	6.35%	6.48%
Consumer Discretionary	2.04%	3.42%
Consumer Staples	10.43%	10.49%
Banks	24.34%	18.65%
Other Financials (incl Property Trusts)	10.82%	11.31%
Telecommunications	4.09%	4.17%

		2009	2008
Other	- Health Care, Info Technology, Utilities	4.38%	3.71%
Cash		6.16%	5.17%

Securities representing over 5% of the combined investment and trading portfolio at 30 June 2009 were:

	% of portfolio
BHP Billiton	13.0%
Westpac	9.4%
Commonwealth Bank	8.7%

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 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 locks 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 2009, it was 0.6% of the total invested including cash (2008: 2.51%). This reduces the risk to the Group's earnings of a short-term fall in the value of securities held in the trading portfolio.

26. Dividends

	2009 $'000	2008 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2008 of 13 cents fully franked at 30% paid on 25 August 2008 (2008: 13 cents fully franked at 30% paid on 22 August 2007).	126,031	124,745
Interim dividend for the year ended 30 June 2009 of 8 cents per share fully franked at 30%, paid 2 March 2009 (2008: 8 cents fully franked at 30% paid 27 February 2008)	78,002	77,153
	204,033	201,898
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	159,238	156,508
Reinvested in shares	44,795	45,390
	204,033	201,898

b) Franking credits	2009 $'000	2008 $'000
Opening Balance of Franking Account at 1 July	69,399	62,578
Franking Credits on Dividends Received	78,186	74,328
Tax Paid during the year	82,812	19,021
Franking Credits paid on Ordinary Dividends paid	(87,442)	(86,528)
Loss of Franking Credits under 45 Day Rule	-	-
Closing Balance of Franking Account	**142,951**	**69,399**
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends recognised as receivables	1,092	81,791
Adjusted Closing Balance	**144,043**	**151,190**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(54,578)	(54,013)
Net available	**89,465**	**97,177**
These franking account balances would allow the Group to frank additional dividend payments up to an amount of:	208,752	226,746

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 determined after balance date

Since the end of the year Directors have determined 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 2009 to be paid on 1 September 2009, but not recognised as a liability at the end of the financial year	127,348	

(d) Listed Investment Company capital gain account	2009 $'000	2008 $'000
Balance of the Listed Investment Company (LIC) capital gain account	24,695	148,360
This would equate to an attributable amount of	35,278	211,943

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.

27. Earnings per share

Basic Earnings per Share	**2009**	**2008**
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	975,678,049	965,213,204
	$'000	**$'000**
Profit for the year	103,479	416,141
	Cents	**Cents**
Basic earnings per share	10.61	43.11

Basic net operating profit before net gains on investment portfolio per Share

	$'000	**$'000**
Net operating profit before net gains on investment portfolio	199,552	205,054
	Cents	**Cents**
Basic net operating profit per share	20.45	21.24

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earning per share is the same as basic earnings per share. This similarly applies to diluted net operating profit per share.

28. Directors and Executives

The sub-totals of Remuneration for the Directors and Executives are as follows :

	Short-term benefits $	Other Long Term benefits $	Post-employment benefits $	Share-based payments $	Total $
2009					
Non-executive Directors (Parent & Consolidated)	526,807	-	47,413	-	574,220
Executives (Consolidated Only)	2,804,120	35,000	236,950	544,200	3,620,270
	3,330,927	35,000	284,363	544,200	4,194,490
2008					
Non-executive Directors (Parent & Consolidated)	484,400	-	43,600	-	528,000
Executives (Consolidated Only)	2,802,218	-	237,548	586,709	3,626,475
	3,286,618	-	281,148	586,709	4,154,475

Detailed remuneration disclosures are provided in the Remuneration Report.
The Group does not make loans to Directors or Executives.

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:

	2009 Number	**2008 Number**
RE Barker	21,452	22,509
GN Driver	8,515	8,177
AJB Porter	10,920	7,883
SE Crook	4,304	3,642
Shares awarded during the year	45,191	42,211

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	Mar 08 - Mar 09	42,125	-	35,104	7,021	-
Oct 2004	Oct 08 - Oct 09	29,485	-	25,799	-	3,686
Apr 2005	Apr 09 – Apr 10	9,130	-	9,130	-	-
Oct 2005	Oct 09 – Oct 10	28,995	-	-	-	28,995
Mar 2006	Mar 10 – Mar 11	17,391	-	-	-	17,391
Aug 2006	Aug 10 – Aug 11	15,484	-	-	5,377	10,107
Oct 2006	Oct 10 – Oct 11	26,186	-	-	-	26,186
Feb 2007*	N/A	46,666	-	23,333	-	23,333
Aug 2007	Aug 11 – Aug 12	42,211	-	-	3,642	38,569
Aug 2008	Aug 12 – Aug 13	-	40,887	-	-	40,887
Total		257,673	40,887	93,366	16,040	189,154

* 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	1,761,329	-	37,876	1,799,205	-
DR Argus	420,875	-	-	420,875	-
RE Barker	700,805	42,904	(5,503)*	738,206	102,828
TA Campbell	213,853	-	9,902	223,755	-
J Paterson	207,163	-	20,000	227,163	-
FD Ryan	83,520	-	-	83,520	-
SDM Wallis	163,900	-	-	n/a	-
CM Walter	100,449	-	1,713	102,162	-
GN Driver	118,646	17,030	566	136,242	30,933
RM Freeman	85,745	-	7,161	92,906	23,333
AJB Porter	42,587	21,840	228	64,655	32,060
SE Crook	132,553	4,304	(9,019)*	n/a	

* Represents shares forfeited due to vesting conditions not being met

Note: Shareholdings do not include shares that were purchased during the year ended 30 June 2010 as part of remuneration for the year ending 30 June 2009. Shareholdings do include amounts that are subject to vesting.

Other arrangements with non-executive directors

Non-Executive Directors Fergus Ryan and Catherine Walter and former Director SDM Wallis have rented office space from the Group at commercial rates since 6 March 2006. Sub-lease rental income (included in revenue) received by the Group during the year was :

(Consolidated Only)	2009	2008
	$	$
FD Ryan	13,287	12,569
SDM Wallis	21,614	20,503
CM Walter	20,789	19,875
	55,690	52,947

29. Employee information

	2009	2008
Employee numbers	**Number**	**Number**
Number of employees at balance date	17	17

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 8 participants (2008: 7) in the scheme were each awarded 230 shares (2008: 208) in the Group. These shares cost the Group $8,012 (2008: $6,989) to acquire on market, including brokerage.

30. Related parties

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

Director TA Campbell had or has an interest in the following transactions as Director, employee and shareholder of Goldman Sachs JBWere Group Holdings Pty Ltd, Goldman Sachs JBWere Pty Ltd, Goldman Sachs JBWere Services Pty Ltd and Goldman Sachs JBWere Capital Markets Limited.

		Consolidated		Parent Entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
(a)	The Group invested surplus funds with Goldman Sachs JBWere				
	- interest revenue received or receivable	4,207	11,963	4,186	11,878
	- funds invested in Goldman Sachs JB Were A$ Cash Reserves Fund	-	261,072	-	259,283
(b)	The Group obtained investment advice and buys and sells securities through Goldman Sachs JBWere Pty Ltd amongst other brokers				
	- Brokerage expenses paid or payable	96	322	96	322
(c)	The Group obtains the following services from Goldman Sachs JBWere Pty Ltd				
	- Computer services	287	275	-	-
	The below transactions were with AICS, the sole subsidiary of the Group.				
(a)	Administration expenses paid during the year	-	-	6,055	4,234

Director FD Ryan is a non-executive Director of the Commonwealth Bank of Australia, who are one of the Group's bankers. Details of the cash advance facilities are found in Note 7. During the year, the following amounts were paid or payable to the Commonwealth Bank of Australia :

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Fees and Net Interest	1,258	3,279	1,359	3,281

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

	Consolidated		Parent Entity	
	2009	2008	2009	2008
(a) Administration expenses charged for the year	1,999	1,453	-	-

31. Remuneration of auditors

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
During the year the auditor earned the following remuneration:				
PricewaterhouseCoopers				
Audit or review of financial reports	180,966	176,595	155,584	151,745
Non-Audit Services				
Taxation compliance services	100,155	76,978	100,155	76,978
Other taxation services	-	5,170	-	-
Other assurance services #	7,507	6,500	-	-
Total Non-Audit Services	107,662	88,648	100,155	76,978
Total remuneration	288,628	265,243	255,739	228,723

The other assurance service relates to work regarding the Group's 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.

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

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Profit for the year	103,479	416,141	102,767	415,965
- Add back depreciation	130	102	130	102
- Net decrease (increase) in trading portfolio	102,538	2,880	102,538	2,880
- Net capital losses (gains) before tax	(17,152)	(291,464)	(17,152)	(291,464)
- Dividends received as securities under DRP investments	(31,537)	(5,499)	(31,537)	(5,499)
- Net AASB 139 'impairment' revaluation charge	107,793	-	107,793	-
- Accounting adjustment for tax on scrip-for-scrip	(411)	16,663	(411)	16,663
- Decrease (increase) in current receivables	15,672	(6,251)	15,679	(6,182)
- Less increase (decrease) in receivables for investment portfolio	1,982	(4,036)	1,982	(4,036)
- Less loan to subsidiary repaid	-	-	-	(200)
- Increase (decrease) in deferred tax liabilities	(298,493)	(299,691)	(298,348)	(299,420)
- Less (increase) decrease in deferred tax liability on investment portfolio	303,056	290,247	303,056	290,247
- Less (credit) charge for income tax on gain or loss on hybrid securities	135	(984)	135	(984)
- Increase (decrease) in current payables	43,998	(8,416)	44,263	(8,512)
- Less decrease (increase) in payables for investment portfolio	(42,626)	7,803	(42,626)	7,803
- Less (increase) decrease in dividends payable	431	(57)	431	(57)
- Increase (decrease) in provision for tax payable	(78,655)	60,172	(78,511)	60,148
- Add taxes paid on capital gains	63,741	8,471	63,741	8,471
- Movement in ELTIP account	170	116	170	116
- Increase (decrease) in other provisions	694	603	(53)	-
Net cash flows from operating activities	274,945	186,800	274,047	186,041

33. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services License in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission ("ASIC"), payable on demand to ASIC.

34. Contingencies

At balance date, the Company had entered into a sub-underwriting agreement to subscribe for up to $3.5 million worth of securities under the capital raising by Australian Infrastructure Fund and $23.2 million worth of securities under the capital raising by Rio Tinto Limited.

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

35. 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:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Due within one year	490	454	490	454
Later than one year but less than five	1,022	1,439	1,022	1,439
Greater than five years	-	-	-	-
	1,512	1,893	1,512	1,893

36. 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	
			2009	2008
Australian investment Company Services Ltd	Australia	Ordinary	75%	75%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

37. Share based payments

The Group has a number of share incentive arrangements, these are accounted for in accordance with note 1 i). 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 17.

(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; and management expense ratio. Assessment is also made against a number of qualitative measures.

These shares are subject to a two year holding term.

(ii) Executive 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 S&P/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 17.

(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 8 participants (2008: 7) in the scheme were each awarded 230 shares (2008: 208).

(c) Other Share Based Payments

From time to time the Group may remunerate executives or employees in shares. These shares may be subject to a holding lock or vesting conditions, and would 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:-

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Share-based payment expense	629	638	-	-

(e) Liability

The total liability arising from share based payment transactions is disclosed in note 13.

PRICEWATERHOUSECOOPERS

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

Report on the financial 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 2009, 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 entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial 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 controls 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.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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

PRICEWATERHOUSECOOPERS

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

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

In our opinion:

(a) the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Australian Foundation Investment Company Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

David Coogan
Partner

Melbourne
27 July 2009