



ABN. 56 004 147 120.

**APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

CONTENTS

- Results for announcement to the market
- Media release
- Appendix 4D Accounts
- Independent Auditors' Review Report

This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Group's 2009 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2009 with the previous corresponding period being the half-year ended 31 December 2008. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was \$94.9 million, 29% down from the previous corresponding period.
- Net Operating Profit after tax was \$94.1 million, 13% down from the previous corresponding period.
- Profit after tax attributable to members was \$ 93.5 million (down 15% on last year's \$110.1 million (restated for the effect of the new accounting standard AASB 9 – previously reported figure was \$108.8 million)). This figure includes realised capital gains and losses on the Company's investment portfolio until the adoption of the new accounting standard AASB 9 on 7 December 2009.
- The interim dividend is 8 cents per share, fully franked, the same as last year's interim dividend. It will be paid on 26 February 2010 to ordinary shareholders on the register on 11 February 2010 and the shares are expected to commence trading on an ex-dividend basis on 5 February 2010.
- 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 date for the receipt of an election notice for participation in the plan is 5.00 pm (Melbourne time) on 11 February 2010.
- The final dividend for the 2009 financial year was 13 cents per share (fully franked), and it was paid to shareholders on 1 September 2009.
- 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 2009 were \$5.04, up from \$3.81 at the end of the previous corresponding period (both before allowing for interim dividends).



PORTFOLIO OUTPERFORMS, INTERIM DIVIDEND MAINTAINED

MEDIA RELEASE - HALF YEAR RESULT TO 31 DECEMBER 2009

27 January 2010

AFIC's portfolio benefited from the continued market recovery that occurred over the period and particularly from the improvement in the share price of companies that had large capital raisings during the global financial crisis. As a result over the 6 months to 31 December 2009 AFIC's portfolio return was positive 27.6 percent whereas the S&P/ASX 200 Accumulation Index return was up 25.6 percent.

There was a strong recovery in the banking stocks as well as solid contributions to the portfolio performance from BHP Billiton, Rio Tinto and Wesfarmers.

During the period the Company participated in selected capital raisings and dividend reinvestment plans at discounted prices. The most notable of these were in Hastings Diversified Utilities Fund, Oil Search and Amcor. The Company also purchased a new holding in Eastern Star Gas.

The only major sale was Santos Fuels securities which were redeemed by the company.

Profit

The Net Operating Profit was \$94.1 million, down 13 percent from the corresponding figure last year of \$107.8 million. In line with general conditions evident in the market where companies substantially reduced their dividend payments during the year, income from investments which includes franked dividends, fell 27 percent. However, the substantial turnaround in the contribution from the Trading Portfolio as equity markets experienced more positive conditions helped offset some of this decline. For the six months income from the Trading Portfolio was \$12.4 million whereas last year there was a loss of \$21.6 million.

Net Profit after Tax for the half was \$93.6 million, down from \$110.2 million last year. These figures includes realised gains and losses up to 7 December 2009 which is the date of adoption of a new accounting standard dealing with among other things the treatment of realised gains, this being the earliest possible date for adoption.

The interim dividend has been maintained at 8 cents per share fully franked. The discount on the Dividend Reinvestment Plan has also been maintained at 5%.

Outlook

Market conditions improved over the period as the impact of monetary policy and the large government stimulus package fed through to better short term outcomes than originally anticipated. Conditions also reflected China's continued strong growth and the ongoing development of Australia's major resources.

The Australian equity market is now looking for a sustained improvement in the economic environment and uplift in future company earnings to justify current valuations.

However AFIC enters the new calendar year with more caution than perhaps the market is exhibiting at this point. Rising interest rates are likely to test the present levels of consumer and business confidence in Australia with global conditions still vulnerable to major shocks.

We are close to fully invested. In the upcoming reporting season we will be particularly interested in comments companies make about the outlook for earnings and the likely restoration of dividends over time.

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

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

A. Acquisitions (above \$5 million)	Cost (\$'000)
Hastings Diversified Utilities Fund	15,632
Oil Search	11,802
Amcor	11,000
Westpac Banking Corporation	9,912
Woodside Petroleum	9,761
Eastern Star Gas	9,246
Perpetual Limited	7,685
National Australia Bank	6,157
Australia & New Zealand Banking Group	5,952
B. Disposals (above \$5 million)	Proceeds (\$'000)
Santos FUELS (a)	13,152
(a) Redeemed by the Company	

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2009

Valued at closing prices at 31 December 2009

				Total Value \$ million
1	*	BHP	BHP Billiton	614.6
2		CBA	Commonwealth Bank of Australia	464.7
3		WBC	Westpac Banking Corporation	461.4
4		RIO	Rio Tinto	267.6
5		NAB	National Australia Bank	239.0
6		WES	Wesfarmers (a)	236.5
7		WOW	Woolworths	173.7
8		TLS	Telstra Corporation	171.7
9		ANZ	Australia & New Zealand Banking Group	146.1
10		WPL	Woodside Petroleum	123.2
11		QBE	QBE Insurance Group	103.3
12	*	STO	Santos	95.8
13		CPU	Computershare	93.4
14		AMC	Amcor	89.7
15	*	OSH	Oil Search	85.5
16		ORG	Origin Energy	81.6
17		TOL	Toll Holdings	69.9
18	*	AMP	AMP	69.9
19		ORI	Orica	65.4
20		WAN	West Australian Newspapers Holdings	64.9
21		IPL	Incitec Pivot	64.2
22		AGK	AGL Energy	60.3
23	*	BXB	Brambles	58.1
24		TCL	Transurban Group	54.4
25		AXA	AXA Asia-Pacific Holdings	53.3
				4,008.2

As % of Total Portfolio
(excludes Cash) 81.7%

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

(a) Includes \$43.7 million of WESN partially protected securities



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2009**

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 AC
Ross E. Barker, Managing Director
Terrence A. Campbell AO, Deputy Chairman
John Paterson
Fergus D. Ryan
Catherine M. Walter AM

Company Secretaries: Simon M. Pordage
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: GPO Box 2975EE, Melbourne, Victoria 3000
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

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 2009 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 (appointed June 1966)
D.R. Argus AC (appointed May 1999)
R.E. Barker (appointed September 2001)
T.A. Campbell AO (appointed September 1984)
J. Paterson (appointed June 2005)
F.D. Ryan (appointed August 2001)
C.M. Walter AM (appointed August 2002)

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 primarily reflects on-going earnings from the Company's long term investment portfolio, decreased to \$94.1 million, down 13% from \$107.8 million last year. The net operating profit per share for the six months to 31 December 2009 was 9.6 cents per share with an interim dividend determined of 8 cents per share.

Net profit after tax, which includes realised gains and losses on the sale of investments from the investment portfolio, was \$93.6 million, down 15% from the previous corresponding period. From 7 December 2009, the date of the adoption of the new accounting standard *AASB 9 – Financial Instruments* by the Company, all realised gains and losses will be recorded through equity via the Statement of Comprehensive Income rather than through the income statement

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 11.

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Unless specifically stated otherwise, amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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



Bruce B. Teele
Chairman
Melbourne
27 January 2010

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MELBOURNE VIC 3001
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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 2009, 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 entities it controlled during the period.



David Coogan
Partner
PricewaterhouseCoopers

Melbourne
27 January 2010

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Note	Half-year 2009 \$'000	Half-year 2008 \$'000
Dividends and distributions		90,486	123,926
Revenue from deposits and bank bills		2,283	8,370
Other revenue		2,111	1,746
Total revenue		94,880	134,042
Net gains/(losses) on trading portfolio		12,377	(21,619)
Income from operating activities	3	107,257	112,423
Finance costs		(2,047)	(1,886)
Administration expenses		(5,742)	(6,137)
Net Operating Profit before income tax expense		99,468	104,400
Income tax credit/(expense)*		(5,400)	3,438
Net Operating Profit for the half-year		94,068	107,838
Net gains/(losses) on investments			
Net gains/(losses) on securities sold from the investment portfolio		(13)	9,275
Net gains/losses on other securities		-	88
Tax expense on net gains/losses*		(475)	(7,030)
		(488)	2,333
Profit for the half-year		93,580	110,171
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company Ltd		93,483	110,093
Minority Interest		97	78
		93,580	110,171
		Cents	Cents
Basic earnings per share	8	9.51	11.31
		Half-year 2009 \$'000	Half-year 2008 \$'000
* Total Tax Expense		5,875	3,592

Note that the Profit for the half-year for the comparative period has been restated as a result of a change in the accounting standards – see Note 11.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Half-Year to 31 December 2009			Half-Year to 31 December 2008		
	Revenue \$'000	Capital \$'000	Total \$000	Revenue \$'000	Capital \$'000	Total \$'000
Net Profit for the half-year	94,068	(488)	93,580	107,838	2,333	110,171
Other Comprehensive Income						
Unrealised gains/(losses) for the period on securities in the portfolio at 31 December	-	990,696	990,696	-	(1,224,417)	(1,224,417)
Deferred tax (expense)/credit on above	-	(292,310)	(292,310)	-	345,474	345,474
Plus losses for the period on securities realised	-	(15)	(15)	-	(37,279)	(37,279)
Tax (expense)/credit on above	-	420	420	-	28,151	28,151
Transfer to Income Statement of cumulative losses/(gains) on investments realised prior to 7 December	-	13	13	-	(9,275)	(9,275)
Tax expense on above	-	475	475	-	7,004	7,004
Net movement in fair value for interest rate swap	-	752	752	-	(3,833)	(3,833)
Total other comprehensive income ^{1,3}	-	700,031	700,031	-	(894,175)	(894,175)
Total comprehensive income ²	94,068	699,543	793,611	107,838	(891,842)	(784,004)

1 Net capital gains/(losses) not recorded through the Income Statement

2 This is the company's Net Return for the year, which includes the Net Operating Profit plus the net realised and unrealised gains or losses on the Company's investment portfolio.

3 Total tax movement in other comprehensive income : 2009 - \$(291.4)m; 2008 - \$380.6m

	Half-Year to 31 December 2009			Half-Year to 31 December 2008		
	Revenue \$'000	Capital \$'000	Total \$000	Revenue \$'000	Capital \$'000	Total \$000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	93,971	699,543	793,514	107,760	(891,842)	(784,082)
Minority Interest	97	-	97	78	-	78
	94,068	699,543	793,611	107,838	(891,842)	(784,004)

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009

	Note	31 Dec 2009 \$'000	30 June 2009 \$'000
Current assets			
Cash		103,352	249,108
Receivables		6,192	28,371
Trading portfolio	4	40,165	24,064
Tax overpayment receivable		8,258	7,433
Total current assets		157,967	308,976
Non-current assets			
Fixtures & fittings		661	726
Investment portfolio		4,863,331	3,770,906
Total non-current assets		4,863,992	3,771,632
Total assets		5,021,959	4,080,608
Current liabilities			
Payables		1,396	46,547
Borrowings		50,000	50,000
Provisions		1,580	1,874
Interest-rate hedging contracts		703	1,455
Total current liabilities		53,679	99,876
Non-current liabilities			
Provisions		489	404
Deferred tax liabilities - investment portfolio	5	710,990	419,492
Deferred tax liabilities - other		2,248	274
Total non-current liabilities		713,727	420,170
Total liabilities		767,406	520,046
Net Assets		4,254,553	3,560,562
Shareholders' equity			
Share Capital	6	1,765,518	1,737,790
Revaluation Reserve		1,711,313	1,012,034
Realised Capital Gains Reserve		333,218	354,278
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		(703)	(1,455)
Retained Profits		421,203	434,008
Parent Entity Interest		4,254,186	3,560,292
Minority Interest		367	270
Total equity		4,254,553	3,560,562

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 2009

Half-Year 2009	Note	Share Capital \$000	Revaluation Reserve \$000	'Impairment' Revaluation Charge Reserve \$000	Realised Capital Gains \$000	General Reserve \$000	Interest-Rate Hedging \$000	Retained Profits \$'000	Total Parent Entity \$000	Minority Interest \$000	Total \$'000
Total equity at the beginning of the half-year as reported		1,737,790	1,120,948	(107,793)	354,278	23,637	(1,455)	432,887	3,560,292	270	3,560,562
Adoption of AASB 9	11	-	(108,914)	107,793	-	-	-	1,121	-	-	-
Restated total equity at the beginning of the half-year		1,737,790	1,012,034	-	354,278	23,637	(1,455)	434,008	3,560,292	270	3,560,562
Dividends paid	7	-	-	-	(20,572)	-	-	(106,776)	(127,348)	-	(127,348)
Shares issued- Dividend Reinvestment Plan	6	27,756	-	-	-	-	-	-	27,756	-	27,756
Other Share Capital Adjustments	6	(28)	-	-	-	-	-	-	(28)	-	(28)
Total transactions with share-holders		27,728	-	-	(20,572)	-	-	(106,776)	(99,620)	-	(99,620)
Profit for the half-year		-	-	-	(488)	-	-	93,971	93,483	97	93,580
<i>Other Comprehensive Income for the half-year</i>											
Net unrealised gains for the period for stocks held at 31 December		-	698,386	-	-	-	-	-	698,386	-	698,386
Net gains for the period on investments realised		-	405	-	-	-	-	-	405	-	405
Transfer to Income Statement of cumulative losses on investments realised		-	488	-	-	-	-	-	488	-	488
Net movement in fair value of swap contracts		-	-	-	-	-	752	-	752	-	752
Other Comprehensive Income for the half-year		-	699,279	-	-	-	752	-	700,031	-	700,031
Total equity at the end of the half-year		1,765,518	1,711,313	-	333,218	23,637	(703)	421,203	4,254,186	367	4,254,553

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2009 (CONT)

Half-Year 2008	Note	Share Capital \$000	Revaluation Reserve \$000	'Impairment'	Realised Capital Gains \$000	General Reserve \$000	Interest-Rate Hedging \$000	Retained Profits \$'000	Total Parent Entity \$000	Minority Interest \$000	Total \$'000
				Revaluation Charge Reserve \$000							
Total equity at the beginning of the half-year		1,692,908	1,754,633	-	468,904	23,637	1,709	311,200	4,252,991	92	4,253,083
Adoption of AASB 9		-	(891)	-	-	-	-	891	-	-	-
Restated total equity at the beginning of the half-year		1,692,908	1,753,742	-	468,904	23,637	1,709	312,091	4,252,991	92	4,253,083
Dividends paid	7	-	-	-	(126,031)	-	-	-	(126,031)	-	(126,031)
Shares issued- Dividend Reinvestment Plan		27,748	-	-	-	-	-	-	27,748	-	27,748
Other Share Capital Adjustments		(59)	-	-	-	-	-	-	(59)	-	(59)
Total transactions with shareholders		27,689	-	-	(126,031)	-	-	-	(98,342)	-	(98,342)
Profit for the half-year		-	-	-	-	-	-	110,093	110,093	78	110,171
<i>Other Comprehensive Income for the half-year</i>											
Net unrealised gains for the period for stocks held at 31 December		-	(878,943)	-	-	-	-	-	(878,943)	-	(878,943)
Net losses for the period on investments realised		-	(9,128)	-	-	-	-	-	(9,128)	-	(9,128)
Transfer to Income Statement of realised losses on investments		-	(2,271)	-	-	-	-	-	(2,271)	-	(2,271)
Net movement in fair value of swap contracts		-	-	-	-	-	(3,833)	-	(3,833)	-	(3,833)
Other Comprehensive Income for the half-year		-	(890,342)	-	-	-	(3,833)	-	(894,175)	-	(894,175)
Total equity at the end of the half-year		1,720,597	863,400	-	342,873	23,637	(2,124)	422,184	3,370,567	170	3,370,737

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 2009

	Half-year 2009 \$'000	Half-year 2008 \$'000
	INFLOWS/ (OUTFLOWS)	INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	58,502	104,728
Purchases for trading portfolio	(53,741)	(51,829)
Interest received	2,738	7,050
Dividends and distributions received	63,116	123,650
	70,615	183,599
Other receipts	2,124	1,810
Administration expenses	(5,879)	(6,807)
Finance costs paid	(2,041)	(1,462)
Taxes paid	(4,638)	(72,095)
Net cash inflow/(outflow) from operating activities	60,181	105,045
Cash flows from investing activities		
Sales from investment portfolio	15,280	108,059
Purchases for investment portfolio	(122,047)	(140,473)
Payment for fixed assets	-	(19)
Net cash inflow/(outflow) from investing activities	(106,767)	(32,433)
Cash flows from financing activities		
Proceeds from borrowings	200,000	-
Repayment of borrowings	(200,000)	-
Payment for shares bought back	-	(14)
Dividends paid	(99,170)	(98,134)
Net cash inflow/(outflow) from financing activities	(99,170)	(98,148)
Net increase/(decrease) in cash held	(145,756)	(25,536)
Cash at the beginning of the half-year	249,108	261,129
Cash at the end of the half-year	103,352	235,593

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 2009

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 2009 Annual Report and public announcements made by the Group 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, with the exception of the following:

AASB 101 (revised): *Presentation of Financial Statements*

With effect from 1 July 2009, the Group has adopted the revised AASB 101 – *Presentation of Financial Statements*. This standard requires the presentation of a new Statement of Comprehensive Income separate from changes in equity arising from transactions with shareholders.

The adoption of this new standard has no impact on the Group's net assets, net profit or total recognised gains and losses, but changes the statement where certain gains and losses are presented. Previously, unrealised gains / (losses) on the investment portfolio and the associated deferred tax (charge) / credit were presented in the Statement of Changes in Equity. These items are now presented as components of "other comprehensive income" in the new Statement of Comprehensive Income.

AASB 9: *Financial Instruments*

The Company has also early adopted AASB 9 – *Financial Instruments*, with effect from 7 December 2009, this being the earliest available date for adoption. Under this new standard, the Company has designated the investments in the investment portfolio held at that date as at "fair value through other comprehensive income". Application of the new standard results in realised gains and losses arising from the disposal of investments in the investment portfolio (and the associated tax charge / (credit)) being recognised as "other comprehensive income" in the new Statement of Comprehensive Income instead of forming a component of profit in the Income Statement.

Under the old accounting standard where there was objective evidence of impairment, an impairment charge was required to be booked through the income statement, even where no loss had been realised. There are no such impairment provisions for the Company's investments in the new standard.

The adoption of this accounting standard has no impact on the valuation of the Company's investments and therefore no impact on the Company's net assets or total comprehensive income.

The adoption of both of these standards results in all realised and unrealised gains and losses on the investment portfolio being reported through the Statement of Comprehensive Income.

AASB 9 may only be applied retrospectively for those investments held on the date of adoption, 7 December 2009. However, investments which were sold prior to 7 December 2009 continue to be accounted for under AASB 139, resulting in the realised gains on these sales continuing to form a component of profit. Therefore both the comparative period and the current period profits include realised gains from the sale of investments from the investment portfolio. All sales from the investment portfolio subsequent to 7 December 2009 will be accounted for through other comprehensive income and not profit.

Comparatives have only been restated in respect of those investments the Company held at 7 December 2009. This restatement impacts the allocation of reserves at 30 June 2009 and net profit for the half-year ended 31 December 2008 but has no impact on net assets. Further information has been provided in note 11.

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 as quoted on the ASX

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 2009 \$'000	Half-year 2008 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	90,015	122,340
• securities held in trading portfolio	403	1,453
	<u>90,418</u>	<u>123,793</u>
Interest income		
• securities held in investment portfolio	68	133
• deposits and income from bank bills	2,283	8,370
	<u>2,351</u>	<u>8,503</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	5,284	1,698
• unrealised gains/(losses) in trading portfolio	7,093	(23,317)
	<u>12,377</u>	<u>(21,619)</u>
Administration fees	1,707	1,609
Other income	404	137
	<u>107,257</u>	<u>112,423</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 there were call options outstanding which potentially required the Company, if they were exercised, to deliver securities to the value of \$13.8 million (30 June 2009: \$26.8 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 \$711.0 million (30 June 2009 : \$419.5 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 2009 Shares '000	31 Dec 2009 \$'000	30 June 2009 Shares '000	30 June 2009 \$'000
(a) Share Capital				
Ordinary shares – fully paid	985,515	1,765,989	979,601	1,738,233
Less ELTIP shares adjustment	-	(471)	-	(443)
	<u>985,515</u>	<u>1,765,518</u>	<u>979,601</u>	<u>1,737,790</u>

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
01/07/2009	Opening Balance		979,601		1,738,233
01/09/2009	Dividend Reinvestment Plan	i	5,918	4.69	27,756
Various	Cancellation of unvested LTIP shares		(4)		-
31/12/2009	Balance		<u>985,515</u>		<u>1,765,989</u>

- 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 Securities 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. This plan remains active.

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

Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Closing balance
01/07/2009	\$443,464	-	(\$165,603)	-	\$277,861
15/10/2009	-	\$205,743	(\$12,864)	-	\$192,879
<i>Total</i>	<u>\$443,464</u>	<u>\$205,743</u>	<u>(\$178,467)</u>	<u>-</u>	<u>\$470,740</u>

7. Dividends

Half-year
2009
\$000

Half-year
2008
\$000

Dividends paid during the period

127,348
(13 cents
per share)

126,031
(13 cents
per share)

Dividends not recognised at period end

Since the end of the half-year the Directors have determined an interim dividend of 8 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 26 February 2010, but not recognised as a liability at the end of the half-year is

78,841

8. Earnings per Share

Half-year
2009

Half-year
2008

Weighted average number of ordinary shares used as the denominator

Number
983,492,502

Number
973,333,936

Profit after tax for the half-year attributable to members of the company

\$'000
93,483

\$'000
110,093

Basic earnings per share

Cents
9.51

Cents
11.31

Net operating profit after tax for the half-year

\$'000
94,068

\$'000
107,838

Net operating profit per share

Cents
9.56

Cents
11.08

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted net return per share is the same as Basic Net Return 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 2009 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 Group 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.

11. Effect of Changes in Accounting Standards

The impact on comparative profit, other comprehensive income and the allocation of the company's reserves resulting from the adoption of AASB 9 is summarised below:-

(i) Net profit

	Half-year 2008 \$'000
Net profit for the half year (as reported last year)	108,905
Add Net Unrealised Losses on Other Securities still held in the investment portfolio at 7 December 2009, as gains or losses on hybrids are accounted for through Other Comprehensive Income under AASB 9.	1,807
Less Tax credit on above	(541)
Restated net profit	110,171
	Cents
Earnings per share (as reported last year)	11.19
Restated earnings per share	11.31

(ii) Other comprehensive income

	Half-year 2008 \$'00
Net unrealised losses on investment portfolio & interest-rate swaps (as reported last year)	(892,909)
Less Net Unrealised Losses on Other Securities still held in the investment portfolio at 7 December 2009 (as above)	(1,807)
Add Tax credit on above	541
Restated other comprehensive income (expense)	(894,175)

(iii) Shareholders' equity

During the year ended 30 June 2009, under the old AASB 139, the Company was required to book an impairment charge. There are no provisions for impairment in the new standard, which is retrospectively applied to investments held at the date of adoption, 7 December. The Company has not sold any of the investments against which an impairment charge was taken at 30 June 2009, and therefore retrospectively applying AASB 9 at 30 June 2009 results in the reversal of this impairment charge (as this will be taken as an unrealised loss through other comprehensive income instead of an impairment loss through profit).

In addition, under the old AASB 139, securities that contained a derivative element (“hybrids”) were accounted for at fair value through the income statement. Under AASB 9, these securities will follow the accounting treatment of their ‘host contract’, in the Company’s case this being equity securities accounted for at fair value through other comprehensive income. This new accounting treatment does not apply to securities sold before 7 December 2009, which are accounted for under AASB 139.

This results in the following restatement of reserves on the 30 June 2009 balance sheet :

	As previously reported \$'000	Reverse impairment charge \$'000	Net unrealised losses on hybrids \$000	Restated \$'000
Share capital	1,737,790	-	-	1,737,790
Revaluation reserve	1,120,948	(107,793)	(1,121)*	1,012,034
Impairment reserve	(107,793)	107,793	-	-
Realised capital gains reserve	354,278	-	-	354,278
General reserve	23,637	-	-	23,637
Interest rate hedging reserve	(1,455)	-	-	(1,455)
Retained profits	432,887	-	1,121	434,008
Total shareholders' equity	3,560,292	-	-	3,560,292
Minority interest	270	-	-	270
Total equity	3,560,562	-	-	3,560,562

* Cumulative unrealised losses on hybrids as at 30 June 2009. The reserves noted in the Consolidated Statement of Changes in Equity as at 30 June 2008 have also been restated, resulting in a decrease in the Revaluation Reserve and a corresponding increase in Retained Profits of \$891,000.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 12 to 23 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 2009 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
27 January 2010

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 statements of Australian Foundation Investment Company Limited, which comprise the balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and the 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 comprises both Australian Foundation Investment Company Limited (the company) and the entities 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 2009 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.

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 2009 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
27 January 2010