AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2010

CONTENTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2010 with the corresponding period being the year ended 30 June 2009.

This report is based on audited financial statements. A copy of the audit report can be found on page 50.

Results for announcement to the market

- Total portfolio return after management fees and tax paid on income and realised gains is a key measurement of the Company's performance. Over the year to 30 June 2010 the total portfolio return (change in net asset backing per share plus dividends reinvested) was positive 15.6% whereas the S&P/ASX 200 Accumulation Index increased 13.1% over the same period.

- Revenue from operating activities was $194.9 million, 15.5% down from the prior year.

- Net operating profit after tax was $179.5 million, 10.1% down from the prior year.

- Net profit attributable to members was $183.6 million, 11.9 % down from the prior year which was restated following changes to accounting standards.

- A fully-franked final dividend of 13 cents per share will be paid on 1 September 2010 to shareholders on the register on 19 August 2010. The shares are expected to trade ex-dividend on 13 August 2010.

- 1 cent of the 13 cents final dividend is sourced from capital gains, on which the Company has paid tax. The amount of pre-tax attributable gain, known as an "LIC gain", is 1.4 cents (last year 3 cents). This gain enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.

- The interim dividend of 8 cents per share was paid to shareholders on 26 February 2010.

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

- The Management Expense Ratio ("MER") calculated as the net expenses of managing the Company as a percentage of the average value of its investments including cash over the year, was 0.16% for the year, down from 0.19% the previous year.

- Net tangible assets per share as at 30 June 2010, before allowing for the final dividend, were $4.49 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2009: $4.06).

- A Dividend Reinvestment Plan (DRP) is available, the price for which will be set at a **2.5% 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 19 August 2010.

- The 2010 AGM will be held at the Hilton on the Park, East Melbourne, at 10.00 AM on Monday 4th October.

PORTFOLIO RETURN AHEAD IN MARKET REBOUND

MEDIA RELEASE - FULL YEAR RESULT TO 30 JUNE 2010

26 July 2010

The S&P/ASX 200 Accumulation Index return which includes dividends was up 13.1 percent over the twelve months to 30 June 2010. AFIC's return on a comparative basis was 15.6 percent over this period, with the portfolio particularly benefiting from the strong recovery in the banking sector over the year which returned 21.3 percent. AFIC's performance is after very low costs of 0.16 percent per annum and tax paid on income and realised gains. The index performance does not carry these costs.

The equity market experienced very strong gains in the first half of the financial year. However concerns about the economic outlook in developed economies, including sovereign debt levels in Europe meant there was some retracement of the gains in the second half of the year. Throughout this period AFIC was able to take advantage of various opportunities, including participation in selected capital raisings and purchases in companies that in our opinion offered value to long term investors during periods of market weakness.

Of the purchases made during the year the major ones were in Australian Infrastructure Fund, Amcor, ANZ Banking Group, Hastings Diversified Utilities Fund, Oil Search, Perpetual Trustees, Transurban, Westpac and Woodside Petroleum. Eastern Star Gas was the only new company added to the investment portfolio during the year.

Only a small number of sales were made during the year. The Santos Fuels securities, which were redeemed by the Company, and 20 per cent of AFIC's holding in Nufarm was sold through participation in the tender offer by Sumitomo Chemical Company. AFIC subsequently took up its entitlement in the capital raising by Nufarm which followed this tender.

Profit

The Net Operating Profit was $179.5 million, down from the corresponding figure last year of $199.6 million. Income from investments, which includes franked dividends, fell 13.2 percent as companies substantially reduced their dividend payments during the year. The decline in dividend income was offset by the contribution of the Trading Portfolio which contributed $8.0 million to total income in contrast to last year where there was a loss of $12.5 million.

Reported Profit for the year was $183.8 million, down from $208.4 million last year. Note last year's comparative figure has been restated from $103.5 million following adoption of new accounting standards this year which changed the treatment of realised and unrealised gains and losses and impairment.

Dividend

The final dividend has been maintained at 13 cents per share fully franked bringing total dividends paid for the year to 21 cents per share fully franked the same as last year. The discount on the Dividend Reinvestment Plan is 2.5%.

Outlook

As we move into the new financial year a number of factors are influencing the market's likely performance.

On a positive note growth in China is expected to remain relatively strong. In addition the Australian economy is also well placed given its stronger fiscal position, sound employment levels and expectations for ongoing capital expenditure.

The market is also looking for evidence to support the positive expectations for company earnings in the upcoming reporting season and that governments in developed countries are effectively addressing their high debt levels through appropriate fiscal adjustment.

Political uncertainty will also be heightened until the Federal election is held.

The recent share purchase plan raised $83 million of cash which means we have some resources to consider specific stock opportunities when they arise. However, we will be taking a patient approach as our expectations are that the market is likely to trade broadly in a range around current levels for a period of time with higher volatility in the short to medium term.

Please direct any enquiries to:

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Chairman	Managing Director	General Manager
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MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (above $5 million)	Cost ($'000)
Transurban Group	21,161
Hastings Diversified Utilities Fund	15,632
Oil Search	12,317
Amcor	11,000
Perpetual Trustees	10,135
Eastern Star Gas	9,962
Westpac Banking Corporation	9,912
Woodside Petroleum	9,761
Australian Infrastructure Fund	8,577
QBE Insurance Group	8,449
ANZ Banking Group	6,454
National Australia Bank	6,157
Trust Company	5,513

Disposals (above $5 million)	Proceeds ($'000)
Santos FUELS (a)	13,152
Nufarm	7,859

(a) Redeemed by the Company

TOP 25 INVESTMENTS AS AT 30 JUNE 2010

Valued at closing prices at 30 June 2010

			Total Value $ million
*	1	BHP Billiton	537.5
	2	Commonwealth Bank of Australia	412.1
	3	Westpac Banking Corporation	387.2
	4	Rio Tinto	238.2
	5	Wesfarmers (a)	217.0
	6	National Australia Bank	204.6
	7	Woolworths	167.6
	8	Telstra Corporation	162.7
*	9	Australia & New Zealand Banking Group	151.1
	10	Woodside Petroleum	109.2
	11	Computershare	86.5
	12	Santos	86.3
*	13	QBE Insurance Group	84.1
	14	Amcor	80.5
*	15	Origin Energy	78.3
*	16	Oil Search	77.7
	17	Orica	63.2
*	18	Transurban Group	63.0
	19	AGL Energy	63.0
*	20	AMP	56.1
	21	Australian Infrastructure Fund	55.5
*	22	Westfield Group	54.6
	23	West Australian Newspapers Holdings	52.6
*	24	Coca-Cola Amatil	51.1
	25	Incitec Pivot	49.4
		Total	3,589.2
		As % of Total Portfolio Value (excludes Cash)	80.9%

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

(a) Includes $40.3 million of WESN partially protected securities

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
Dividends and distributions		186,564	214,874
Revenue from deposits and bank bills		4,490	12,335
Other revenue		3,886	3,465
Total revenue		**194,940**	**230,674**
Net gains/(losses) on trading portfolio		7,967	(12,548)
Income from operating activities		**202,907**	**218,126**
Finance costs		(4,223)	(3,812)
Administration expenses		(11,105)	(11,282)
Operating profit before income tax expense	**4**	**187,579**	**203,032**
Income tax expense*	**5**	(8,118)	(3,480)
Net operating profit		**179,461**	**199,552**
Net gains/(losses) on investments			
Net gains/(losses) on equity securities sold from the investment portfolio before 7 December 2009		(13)	16,702
Net gains/(losses) on Hybrids and Puttable Instruments		6,829	(3,614)
Tax expense on net gains on investments*	**5**	(2,524)	(4,213)
		4,292	8,875
Profit for the year		**183,753**	**208,427**
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company Ltd		183,561	208,249
Minority interest		192	178
		183,753	**208,427**
		Cents	**Cents**
Basic and diluted earnings per share		18.60	21.34

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 25.

Note that the comparative figures have been restated as a result of the adoption of AASB 9 – see Note 36.

	Consolidated 2010 $'000	2009 $'000
* Total tax expense/(credit) for the year	10,642	7,693

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Year to 30 June 2010			Year to 30 June 2009		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$000**	$'000	$'000	$'000
Profit for the Year	**179,461**	**4,292**	**183,753**	**199,552**	**8,875**	**208,427**
Other Comprehensive Income						
Unrealised gains/(losses) for the period on securities in the portfolio at 30 June	-	433,039	**433,039**	-	(965,515)	(965,515)
Deferred tax (expense)/credit on above	-	(126,096)	**(126,096)**		279,122	279,122
Plus losses for the period on securities realised before 7 December 2009	-	(15)	**(15)**	-	(57,434)	(57,434)
Tax (expense)/credit on above	-	420	**420**	-	16,944	16,944
Plus gains for the period on securities realised after 7 December 2009	-	2,706	**2,706**	-	-	-
Tax (expense)/credit on above	-	(812)	**(812)**	-	-	-
Transfer to Income Statement of cumulative losses/(gains) on investments realised prior to 7 December	-	13	**13**	-	(16,702)	(16,702)
Tax expense on above	-	475	**475**	-	5,297	5,297
Transfer to Income Statement of cumulative gains on Other Securities realised prior to 7 December	-	-	**-**	-	(493)	(493)
Tax expense on above	-	-	**-**	-	148	148
Gross movement in fair value for interest rate swap	-	1,291	**1,291**	-	(4,520)	(4,520)
Tax expense on above	-	(387)	**(387)**	-	1,356	1,356
Total other comprehensive income [1,3]	**-**	**310,634**	**310,634**	**-**	**(741,797)**	**(741,797)**
Total comprehensive income [2]	**179,461**	**314,926**	**494,387**	**199,552**	**(732,922)**	**(533,370)**

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 : 2010 - $(126.4)m; 2009 - $302.9m

	Year to 30 June 2010			Year to 30 June 2009		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$000**	$'000	$'000	$000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	179,269	314,926	**494,195**	199,374	(732,922)	**(533,548)**
Minority Interest	192	-	**192**	178	-	**178**
	179,461	**314,926**	**494,387**	**199,552**	**(732,922)**	**(533,370)**

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

BALANCE SHEET AS AT 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000	2008 $'000
Current assets				
Cash	**6**	115,226	249,108	261,129
Receivables	**7**	31,706	28,371	44,043
Tax Overpayment Receivable		-	7,433	-
Trading portfolio	**8**	67,108	24,064	126,602
Interest-rate Hedging Contracts	**21**	-	-	1,709
Total current assets		**214,040**	**308,976**	**433,483**
Non-current assets				
Fixtures & fittings	**9**	596	726	838
Investment portfolio	**10**	4,368,980	3,770,906	4,662,323
Deferred tax assets	**15**	833	-	4,424
Total non-current assets		**4,370,409**	**3,771,632**	**4,667,585**
Total assets		**4,584,449**	**4,080,608**	**5,101,068**
Current liabilities				
Payables	**11**	3,217	46,547	2,549
Tax payable		4,564	-	71,222
Borrowings	**6**	50,000	50,000	50,000
Provisions	**12**	1,739	1,874	1,314
Interest-rate Hedging Contracts	**21**	551	1,455	-
Total current liabilities		**60,071**	**99,876**	**125,085**
Non-current liabilities				
Provisions	**13**	589	404	217
Deferred tax liabilities - investment portfolio	**14**	546,821	419,492	722,683
Deferred tax liabilities - other	**15**	-	274	-
Total non-current liabilities		**547,410**	**420,170**	**722,900**
Total liabilities		**607,481**	**520,046**	**847,985**
Net Assets		**3,976,968**	**3,560,562**	**4,253,083**
Shareholders' equity				
Share Capital	**16**	1,865,998	1,737,790	1,692,908
Revaluation Reserve	**18**	1,322,485	1,012,034	1,753,742
Realised Capital Gains Reserve	**19**	337,277	354,278	468,904
General Reserve	**20**	23,637	23,637	23,637
Interest-rate Hedging Reserve	**21**	(551)	(1,455)	1,709
Retained Profits	**22**	427,660	434,008	312,091
Parent Entity Interest		**3,976,506**	**3,560,292**	**4,252,991**
Minority Interest		462	270	92
Total Equity		**3,976,968**	**3,560,562**	**4,253,083**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Year Ended 30 June 2010	Note	Attributable to equity holders of Australian Foundation Investment Company Ltd									
		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 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	**36**	-	(108,914)	107,793	-	-	-	1,121	**-**	-	**-**
Restated total equity at the beginning of the year		**1,737,790**	**1,012,034**	**-**	**354,278**	**23,637**	**(1,455)**	**434,008**	**3,560,292**	**270**	**3,560,562**
Dividends paid	**24**	-	-	-	(20,572)	-	-	(185,617)	**(206,189)**	-	**(206,189)**
Shares issued- Dividend Reinvestment Plan	**16**	45,291	-	-	-	-	-	-	**45,291**	-	**45,291**
- Share Purchase Plan	**16**	83,031	-	-	-	-	-	-	**83,031**	-	**83,031**
Other Share Capital Adjustments	**16**	(114)	-	-	-	-	-	-	**(114)**	-	**(114)**
Total transactions with share-holders		**128,208**	**-**	**-**	**(20,572)**	**-**	**-**	**(185,617)**	**(77,981)**	**-**	**(77,981)**
Profit for the year		-	4,780	-	(488)	-	-	179,269	**183,561**	192	**183,753**
Other Comprehensive Income for the year (net of tax)											
Net unrealised gains for the period for stocks held at 30 June		-	306,943	-	-	-	-	-	**306,943**	-	**306,943**
Net gains for the period on investments realised		-	2,299	-	-	-	-	-	**2,299**	-	**2,299**
Transfer of cumulative gains on investments realised		-	(3,571)	-	4,059	-	-	-	**488**	-	**488**
Net movement in fair value of swap contracts		-	-	-	-	-	904	-	**904**	-	**904**
Other Comprehensive Income for the year		-	305,671	-	4,059	-	904	-	**310,634**	-	**310,634**
Total equity at the end of the year		**1,865,998**	**1,322,485**	**-**	**337,277**	**23,637**	**(551)**	**427,660**	**3,976,506**	**462**	**3,976,968**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010 (2009 COMPARATIVES)

Year Ended 30 June 2009	Note	Attributable to equity holders of Australian Foundation Investment Company Ltd									
		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 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	**36**	-	(891)	-	-	-	-	891	**-**	-	**-**
Restated total equity at the beginning of the year		**1,692,908**	**1,753,742**	**-**	**468,904**	**23,637**	**1,709**	**312,091**	**4,252,991**	**92**	**4,253,083**
Dividends paid	**24**	-	-	-	(126,031)	-	-	(78,002)	**(204,033)**	-	**(204,033)**
Shares issued- Dividend Reinvestment Plan	**16**	44,795	-	-	-	-	-	-	**44,795**	-	**44,795**
Other Share Capital Adjustments		87	-	-	-	-	-	-	**87**	-	**87**
Total transactions with share-holders		**44,882**	**-**	**-**	**(126,031)**	**-**	**-**	**(78,002)**	**(159,151)**	**-**	**(159,151)**
Profit for the year		-	(2,875)	-	11,405	-	-	199,719	**208,249**	178	**208,427**
Other Comprehensive Income for the year (net of tax)											
Net unrealised gains for the period for stocks held at 30 June		-	(686,393)	-	-	-	-	-	**(686,393)**	-	**(686,393)**
Net losses for the period on investments realised		-	(40,460)	-	-	-	-	(30)	**(40,490)**	-	**(40,490)**
Transfer to Income Statement of realised gains on investments		-	(11,750)	-	-	-	-	-	**(11,750)**	-	**(11,750)**
Transfer of prior year cumulative gains on hybrids sold		-	(230)	-	-	-	-	230	**-**	-	**-**
Net movement in fair value of swap contracts		-	-	-	-	-	(3,164)	-	**(3,164)**	-	**(3,164)**
Other Comprehensive Income for the year		-	(738,833)	-	-	-	(3,164)	200	**(741,797)**	**-**	**(741,797)**
Total equity at the end of the year		**1,737,790**	**1,012,034**	**-**	**354,278**	**23,637**	**(1,455)**	**434,008**	**3,560,292**	**270**	**3,560,562**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $'000 INFLOWS/ (OUTFLOWS)	2009 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		92,587	251,274
Purchases for trading portfolio		(99,689)	(143,887)
Interest received		4,897	11,803
Dividends and distributions received		109,563	186,178
		107,358	305,368
Other receipts/(payments)		3,899	3,515
Administration expenses		(10,139)	(11,537)
Finance costs paid		(4,291)	(2,934)
Taxes paid		2,640	(19,467)
Net cash inflow/(outflow) from operating activities	**30**	**99,467**	**274,945**
Cash flows from investing activities			
Sales from investment portfolio		23,139	168,057
Purchases for investment portfolio		(177,689)	(231,513)
Taxes paid on capital gains		(1,073)	(63,741)
Payment for fixed assets		-	(18)
Net cash inflow/(outflow) from investing activities		**(155,623)**	**(127,215)**
Cash flows from financing activities			
Proceeds from borrowings		200,000	200,000
Repayment of borrowings		(200,000)	(200,000)
Share issues		83,031	-
Share issues transaction costs		(208)	(68)
Payment for shares bought back		-	(14)
Dividends paid		(160,549)	(159,669)
Net cash inflow/(outflow) from financing activities		**(77,726)**	**(159,751)**
Net increase/(decrease) in cash held		(133,882)	(12,021)
Cash at the beginning of year		249,108	261,129
Cash at the end of year	**6**	**115,226**	**249,108**

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 consists of financial statements for the consolidated entity consisting of AFIC and its subsidiary. The financial information for the parent entity, disclosed in Note 38 below, has been prepared on the same basis as the consolidated financial statements. 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
Hybrids	Equity instruments that are not ordinary securities

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 2010 ("the inoperative standards") with the exception of AASB 9, as noted below. 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 (with the exception of AASB 9) at the date at which their adoption becomes mandatory.

Changes in Accounting Standards

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 Group has also early adopted AASB 9 – *Financial Instruments*, with effect from 7 December 2009, this being the earliest possible date for adoption. The Group has voluntarily adopted this standard, as this is considered to result in a presentation that better reflects the performance and operations of the Group.

This standard changes the way in which the Group's investments, and their performance, are presented. Adoption of this standard has no impact on the way in which the Group's investments are measured, and hence no impact on net assets or total comprehensive income.

(i) Old accounting treatment

Previously, the Group's investments were accounted for under AASB 139 – *Financial Instruments: Recognition and Measurement*. All investments were carried at fair value and classified as set out below:-

Portfolio	AASB 139 Classification
Investment portfolio (excluding hybrids)	"Available for sale"
Hybrids in the investment portfolio	"Designated at fair value through profit or loss"
Trading portfolio	"Held for trading"

Unrealised gains and losses on investments held in the investment portfolio were taken to the revaluation reserve, through the statement of changes in equity (and under revised AASB 101 would have been reported as "Other Comprehensive Income" ("OCI") in the new Statement of Comprehensive Income).

On sale of investments in the investment portfolio, the cumulative gain or loss from purchase to sale of the investment was transferred from the revaluation reserve to the income statement, and reported as part of profit.

Where there was objective evidence of impairment of an investment in the investment portfolio, an impairment charge was required to be booked through the income statement (as a transfer from the revaluation reserve), even where no loss had been realised.

All gains and losses on hybrids and on the trading portfolio were recognised in the Group's profit through the income statement.

(ii) New accounting treatment

AASB 9 introduces new categories of classification for financial instruments. All the Group's investments continue to be carried at fair value and are now classified as follows:-

Portfolio	AASB 9 Classification
Investment portfolio	
- Equity Instruments	"Designated at fair value through other comprehensive income"
- Puttable Instruments	"Fair value through profit or loss"
Trading portfolio	"Held for trading"

Equity Instruments in the Investment Portfolio
All gains and losses (realised and unrealised) on equity instruments held in the investment portfolio are reported as "Other Comprehensive Income" in the new Statement of Comprehensive Income and are accumulated in the revaluation reserve. Realised gains and losses, are no longer reclassified from other comprehensive income to the income statement, and do not form part of the Group's profits.

Cumulative gains and losses are transferred from the revaluation reserve to retained profits or the realised capital gains reserve when the investments are sold. The realised capital gains reserve is used primarily to record gains upon which Capital Gains Tax has been or will be paid, and which consequently are available for distributions to shareholders as Listed Investment Company Capital gains, which enable many shareholders to claim some of this as a tax deduction (see Note 1 c) (ii) below).

There are no impairment provisions in AASB 9 for investments designated at fair value through other comprehensive income.

Hybrids, when determined to be equity instruments, are also designated at fair value through other comprehensive income.

Puttable Instruments in the Investment Portfolio
Puttable instruments in the Investment Portfolio provide the Company with a beneficial interest in the net assets of the investment and a right to receive distributions and they are therefore monitored by the Company in the same way as the other instruments in the investment portfolio. Under some closely defined circumstances, the issuer of these instruments has a contractual obligation to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. Although these instruments can be classified by the issuer as ‘equity instruments’ under AASB 132 where certain criteria are fulfilled, this classification is unavailable to the Company under AASB 9 and therefore these must be classified as ‘fair value through profit or loss’.

The adoption of AASB 9 has no impact on the trading portfolio.

(iii) Transitional provisions

Comparatives have been restated, but AASB 9 can only be applied retrospectively to investments held at the date of adoption, being 7 December 2009.

Equity Instruments in the Investment Portfolio
Investments sold prior to this date are accounted for under AASB 139 as described above. Therefore in the current and prior periods, the cumulative gains and losses on investments sold prior to 7 December 2009 are transferred out of the revaluation reserve to the income statement and continue to form part of profit.

Investments sold after this date are accounted for under AASB 9 and the cumulative gains and losses remain in other comprehensive income.

Impairment charges recognised in previous periods in profit or loss are reversed in the restatement of comparatives, except where the charge is in respect of investments sold prior to 7 December 2009.

Gains and losses on hybrids held at 7 December 2009 have been reclassified and are now reported as “Other Comprehensive Income” instead of being included in profit in the income statement.

Puttable Instruments in the Investment Portfolio
As both realised and unrealised gains and losses are accounted for through the income statement under AASB 9, comparatives have been restated to transfer unrealised gains / losses from other comprehensive income to the income statement, for those puttable instruments held at 7 December.

Further details on the impact of restating comparatives have been set out in note 36.

AASB 8 *Operating Segments*

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segment information is therefore reported in a manner that is more consistent with the internal reporting provided to the Board & Investment Committee. The adoption of the new standard has not affected the measurement of the Group's assets and liabilities or the way the assets, liabilities, income and expense items are presented in the financial statements.

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 2010, 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.

c) Holdings of securities

(i) Balance sheet classification

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

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

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

Securities within the investment portfolio (with the exception of puttable instruments) are classified as 'financial assets measured at fair value through other comprehensive income', and are designated as such upon initial recognition, whereas puttable instruments and securities held within the trading portfolio are classified as 'mandatorily measured at fair value through profit or loss in accordance with AASB 9'.

The designation of securities within the investment portfolio as 'financial assets measured at fair value through other comprehensive income' is consistent with the Directors' view of these assets as being held for the long-term for both capital growth and for the provision to the Group of dividends and distribution income rather than to make a profit from the sale of such securities, which is the purpose of securities held within the trading portfolio. Puttable instruments are required to be classified at "fair value through profit or loss" although the Directors also view these assets as being held for the long-term for both capital growth and for the provision to the Group of distribution income and their being managed as part of the investment portfolio.

(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, and are revalued to market values continuously. Increments and decrements on equity instruments are recognised as Other

Comprehensive Income and taken to the Revaluation Reserve.

Gains and losses on puttable instruments are recognised in profit or loss. However, they are subsequently transferred from Retained Earnings 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 Realisation Reserve. The amounts of such transfers are noted in the Statement of Changes in Equity, and are done primarily to isolate the realised gains out of which the Company can pay a 'Listed Investment Company' or 'LIC' gain as part of its dividend, which conveys certain taxation benefits to many of the Company's shareholders.

(iii) Valuation of trading portfolio

Securities, including listed and unlisted shares 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 to Profit or Loss 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 in the trading portfolio 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. 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) Fair value of financial assets and liabilities

The fair value of cash, borrowings 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 IFRS as 'last bid price'.

g) 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 Senior Executive Annual Incentive Plan, Senior Executive Long Term Incentive Plan, Investment Team Long Term Incentive Plan 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, the Group and investment companies to which the group provides administration services, 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.

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the group provides administration services over a four year period. The incentives may be settled in shares (but based on a cash amount) or cash. Expenses are recognised over the four year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the balance sheet over the assessment period.

Shares acquired to satisfy obligations under the Senior 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) Rounding of amounts

The Group is of the kind referred to in Class Order 98/100, 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.

n) Split between Revenue and Capital in Other Comprehensive Income

'Capital' relates to realised or unrealised gains (and the tax thereon) on securities within the Investment Portfolio and excludes income in the form of distributions and dividends which are recorded as 'Revenue'. 'Capital' also includes movements in the fair value of the Group's swap contracts. All other items, including expenses, are recorded as Net Operating

Profit, which is equivalent to ‘Revenue’.

o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

2. Critical Accounting Estimates and Judgements

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

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for Capital Gains Tax (CGT) on the unrealised gain in the Investment Portfolio at current tax rates. As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 14. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

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

3. Segment Reporting

(a) Description of segments

The Board makes the strategic resource allocations for the Group. The Group has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for the Group's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Group's performance is evaluated on an overall basis.

The Group invests in equity securities and other instruments to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

(b) Segment information provided to the Board

The internal reporting provided to the Board for the Group's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of capital gains tax on investments (as reported in the Group's Net Tangible Asset announcements to the ASX).

The Board considers the Group's net operating profit after tax to be a key measure of the Group's performance. This amount excludes the impact of unrealised gains/losses on options and any gains or losses on the Group's investment portfolio and reconciles to the Group's profit before tax as follows:

	2010 $'000	2009 $'000
Net Operating Profit after income tax expense	**179,461**	**199,552**
Add back income tax expense	8,118	3,480
Net gains/(losses) on securities sold from the investment portfolio before 7 December 2009	(13)	16,702
Net gains/(losses) on Hybrids and Puttable Instruments	6,829	(3,614)
Profit before tax	**194,395**	**216,120**

In addition, the Investment Committee regularly reviews the net asset value per share both before and after provision for deferred tax on the unrealised gains in the Group's long-term investment portfolio. Deferred tax is calculated as set out in notes 1(d) and 2. The relevant amounts as at 30 June 2010 and 30 June 2009 were as follows:

	2010 $	2009 $
Net tangible asset backing per share		
Before Tax	4.49	4.06
After Tax	3.95	3.64

(c) Other segment information

Segment Revenue

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio.

The company is domiciled in Australia and all of the Group's dividend and distribution income is from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Westpac (11.4%) comprising more than 10% of the Group's income (including trading portfolio) in 2010 (2009 : None).

4. Operating profit before income tax expense

	Consolidated	
	2010 **$'000**	**2009** **$'000**
Dividends and distributions		
• securities in investment portfolio	184,642	212,962
• securities held in trading portfolio	1,922	1,912
	186,564	214,874
Interest income		
• income from cash investments	4,490	12,335
	4,490	12,335
Net gains/(losses) and write downs		
• net gains/(losses) from trading portfolio	10,578	(10,044)
• unrealised losses from trading portfolio	(2,611)	(2,504)
	7,967	(12,548)
Administration fees	3,804	3,383
Other income	82	82
	3,886	3,465
Income from operating activities	**202,907**	**218,126**
Finance costs	(4,223)	(3,812)
Rental expense relating to non-cancellable operating leases	(491)	(474)
Employee benefits expense	(6,338)	(6,515)
Depreciation charge	(130)	(130)
Other administration expenses	(4,146)	(4,163)
Operating profit before income tax expense	**187,579**	**203,032**

Further information relating to remuneration of auditors is set out in Note 29, Directors and Executives in Note 26.

5. Tax expense

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

	Consolidated 2010 $'000	2009 $'000
Operating profit before income tax expense	**187,579**	**203,032**
Tax at the Australian tax rate of 30% (2009 – 30%)	56,274	60,910
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :		
Tax offset for franked dividends	(45,057)	(54,730)
Non-taxable distributions	(2,095)	(3,740)
Sundry items	(1,055)	760
	8,067	**3,200**
Under (over) provision in prior years	51	280
Income tax expense on operating profit	**8,118**	**3,480**
Net gains on investments	**6,816**	**13,088**
Tax at the Australian tax rate of 30% (2009 – 30%)	2,045	3,927
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :		
Differences between accounting and tax cost bases for capital gains purposes	(359)	(152)
Under provision in prior years	838	438
Tax expense on net gains on investments	**2,524**	**4,213**
Total tax expense/(credit)	**10,642**	**7,693**

(b) Tax expense composition

	2010 $'000	2009 $'000
Charge for tax payable relating to the current year	8,727	8,675
Under (over) provision in prior years	889	718
Increase (decrease) in deferred tax liabilities – investment portfolio	84	(5,166)
Increase (decrease) in deferred tax liabilities – puttable instruments	2,049	(1,232)
(Increase) decrease in deferred tax assets - other	(1,107)	4,698
	10,642	**7,693**

(c) Amounts recognised directly through Other Comprehensive Income

	2010 $'000	2009 $'000
Increase (decrease) in deferred tax liabilities relating to capital gains tax on the movement in unrealised gains in the investment portfolio	126,013	(301,511)
	126,013	**(301,511)**

6. Current assets – cash

	Consolidated 2010 $'000	2009 $'000	2008 $'000
Cash at bank and in hand	92	107	57
Fixed Term Deposits	115,134	249,001	261,072
	115,226	249,108	261,129

Cash holdings yielded an average floating interest rate of 4.4% (2009: 5.12%, 2008: 7.3%).

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.

	Consolidated		
	2010 $'000	**2009 $'000**	**2008 $'000**
Commonwealth Bank of Australia –cash advance facility	115,000	75,000	150,000
Amount drawn down	50,000	50,000	50,000
Undrawn facilities	65,000	25,000	100,000
National Australia Bank- cash advance facility (2008 : floating rate facility)	10,000	25,000	50,000
Amount drawn down	-	-	-
Undrawn facilities	10,000	25,000	50,000
Total short-term loan facilities	125,000	100,000	200,000
Total drawn down	50,000	50,000	50,000
Total undrawn facilities	75,000	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.

7. Current assets – receivables

Dividends and distributions receivable	31,010	25,307	32,790
Interest receivable/pre-paid	605	855	827
Outstanding settlements – Investment portfolio	-	1,982	-
Outstanding settlements – Trading portfolio	-	80	10,273
Other receivables/pre-payments	91	147	153
	31,706	28,371	44,043

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.

8. Current assets – trading portfolio

Listed securities at market value			
- shares and trust units	68,093	24,809	133,171
- Options sold by the Group			
• Calls	(985)	(745)	(5,974)
• Puts	-	-	(595)
	67,108	24,064	126,602

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 which, if exercised, required the Group to purchase securities (2009: $Nil, 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 $38.0 million (2009: $26.8 million, 2008: $85.5 million) held by the Group in its trading portfolio. As at balance date all of these contracts were exchange-traded options and are entered into within the constraints and controls imposed by the Australian Securities Exchange. 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.

$91.8 million of shares are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Group (2009: $79.2 million, 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.

9. Non-current assets – fixtures & fittings

	Consolidated		
	2010	**2009**	**2008**
	$'000	**$'000**	**$'000**
Opening Balance	726	838	816
Additions	-	18	124
Depreciation charge	(130)	(130)	(102)
Book cost of furniture and fittings, plus leasehold expenses	596	726	838

10. Non-current assets – investment portfolio

Equity investments			
- equity instruments (excl hybrids) at market value	4,327,727	3,739,414	4,612,970
- hybrids	13,182	25,882	39,861
- puttable instruments	28,071	5,610	9,492
	4,368,980	3,770,906	4,662,323

For a detailed list of the fair value of the Company's investments see Note 37.

11. Current liabilities – payables

Dividends payable	497	148	579
Outstanding settlements – Investment portfolio	1,231	42,626	-
Outstanding settlements – Trading portfolio	-	2,880	-
Directors' retirement benefits	567	567	681
Other payables	922	326	1,289
	3,217	46,547	2,549

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 :

	Consolidated		
	2010 $'000	**2009 $'000**	**2008 $'000**
Opening balance	567	681	681
Amount paid during year	-	(114)	-
	567	567	681

12. Current liabilities – provisions

Employee entitlements	1,739	1,874	1,314

13. Non-current liabilities – provisions

Employee entitlements	589	404	217

14. Deferred tax liabilities – investment portfolio

Deferred tax liabilities on unrealised gains in the investment portfolio	546,821	419,492	722,683

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

Opening balance at 1 July	419,492	722,683	1,012,930
Adjustment on hybrids	-	(184)	-
(Credited)/charged to Income Statement for hybrids	84	148	(984)
(Credited)/charged to Income Statement for puttable instruments	2,049	(1,232)	(1,935)
Tax charge on scrip-for-scrip acquisitions	-	4,902	16,663
Difference between cost parcels for tax and accounting	-	(5,314)	-
Transfer to Realised Gain Reserve	(817)	-	-
(Credited)/charged to OCI for equity instruments	126,013	(301,511)	(303,991)
	546,821	419,492	722,683

15. Deferred tax assets & liabilities - other

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

(a) The difference in the value of the trading portfolio for tax and accounting purposes /unrealised loss	(148)	(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	471	395	1,946
(c) Provisions and expenses charged to the accounting profit which are not yet tax deductible	899	1,007	955
(d) Interest and dividend income receivable which is not assessable for tax until receipt	(389)	(482)	(439)
	833	(274)	4,424

Movements:

Opening balance at 1 July	(274)	4,424	(5,020)
Credited/(charged) to Income statement	1,107	(4,698)	9,444
	833	(274)	4,424

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 $14,000 (2009: $1.2 million, 2008: $3.6 million asset). This relates primarily to items described in items (a), (b) and (d) above.

16. Shareholders' equity – share capital

(a) Share capital	**Consolidated and Parent Entity**		**Consolidated and Parent Entity**		**Consolidated and Parent Entity**	
	2010 Shares ’000	**2010 $’000**	**2009 Shares ’000**	**2009 $’000**	**2008 Shares ’000**	**2008 $’000**
Ordinary shares – fully paid	1,007,133	1,866,346	979,601	1,738,233	969,466	1,693,521
Less ELTIP shares adjustment	-	(348)	-	(443)	-	(613)
	1,007,133	1,865,998	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
1/07/2008	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
01/09/2009	Dividend Reinvestment Plan	i	5,918	4.69	27,756
26/02/2010	Dividend Reinvestment Plan	i	3,638	4.82	17,535
Various	Cancellation of unvested shares	ii	(3)		(12)
02/06/2010	Share Purchase Plan	iii	17,979	4.62	83,031
Various	Share Issue Costs		-		(197)
30/06/2010	Balance		1,007,133		1,866,346

i. The Group has a Dividend Reinvestment Plan (DRP) under which shareholders elect 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 Securities 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 2010 financial year the Group bought back no shares (2009: 3,000 shares at an average price of $4.55). 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.

iii. The Group had a Share Purchase Plan during the year ended 30 June 2010. Under this plan, shareholders were invited to purchase up to $15,000 of new shares which would not be entitled to any final dividend in respect of the year ended 30 June 2010. 17,979,373 shares were issued at a price of $4.62.

(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
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
2009/10	*Oct 2005*	7,257	-	7,257	-	-	0
	Mar 2006	14,059	-	14,059	-	-	0
	Aug 2006	13,534	-	12,506	-	-	1,028
	Oct 2006	40,020	-	32,016	-	-	8,004
	Feb 2007	87,444	-	87,444	-	-	0
	Aug 2007	117,634	-	56,464	-	-	61,170
	Aug 2008	163,516	-	53,028	-	-	110,488
	Oct 2009	-	205,743	38,580	-	-	167,163
	Total for 2009/2010	443,464	205,743	301,354	-	-	347,853

17. Capital Management

The Group's objectives in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully-franked 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 Group 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 Group'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 6, 16, 18, 19, 20, and 22.

18. Revaluation Reserve

	Consolidated 2010 $'000	2009 $'000	2008 $'000
Opening balance at 1 July	1,012,034	1,753,742	2,530,231
Revaluation of investment portfolio – equity instruments	435,743	(1,040,344)	(1,075,967)
Revaluation of investment portfolio – puttable instruments	6,829	(4,107)	(6,448)
Transfer to Realised Capital Gains Reserve	(4,059)	-	-
Provision for tax on unrealised gains	(128,062)	302,743	305,926
	1,322,485	1,012,034	1,753,742

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.

19. Realised Capital Gains Reserve

	2010	2009	2008
Opening balance at 1 July	354,278	468,904	271,883
Dividends paid	(20,572)	(126,031)	(16,793)
Cumulative taxable realised gains for period (net of tax)	3,571	11,405	213,814
	337,277	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.

20. General Reserve

	2010	2009	2008
Opening balance at 1 July	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.

21. Interest-rate swaps

	2010	2009	2008
Opening balance on 1 July	(1,455)	1,709	1,002
Movement for the year (net of tax)	904	(3,164)	707
Fair value of Interest-rate swap agreements	(551)	(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/liability are measured as the fair value of the interest-rate swaps net of associated tax. They cover 100% of the loan principal outstanding. During the year, a net amount of $1.25 million was paid out to the counter-party under this interest-rate swap (2009 : $0.2 million). This expense appears as part of 'Finance costs' in the Income Statement.

22. Retained Profits

	Consolidated 2010 $'000	2009 $'000	2008 $'000
Opening balance at 1 July	434,008	312,091	294,911
Dividends paid	(185,617)	(78,002)	(185,105)
Statutory Profit for the year	183,561	208,249	411,585
Prior Year gains on Hybrids	-	200	-
Transfer to Revaluation Reserve – puttable instruments (net of tax)	(4,780)	2,875	4,514
Transfer to realised capital gains reserve	488	(11,405)	(213,814)
	427,660	434,008	312,091

This reserve relates to past profits and may be distributed as cash dividends at the discretion of Directors.

23. Financial Instruments

(a) Financial Risk Management

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

Credit risk

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

Credit risk is managed as set out below with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are over-due.

Cash

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks and their wholly-owned subsidiaries, all rated 'AA' by S&P. The credit risk exposure of the Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest.

Receivables

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.

Trading & Investment Portfolios

Credit risk exposures of the Group arise in relation to converting and convertible notes and other interest-bearing securities that are not equity 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.

Liquidity risk

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

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

The relatively low level of gearing that the Group has ensures that covenant levels associated with facilities are 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. The Current financial liabilities are shown in Notes 6 & 11. The table below analyses the group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2010	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000
Non-derivatives					
Payables	3,217	-	-	3,217	3,217
Borrowings	50,000	-	-	50,000	50,000
	53,217	-	-	53,217	53,217
Derivatives					
Interest rate swaps	269	269	134	672	551
	269	269	134	672	551

30 June 2009	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000
Non-derivatives					
Payables	46,547	-	-	46,547	46,547
Borrowings	50,000	-	-	50,000	50,000
	96,547	-	-	96,547	96,547
Interest rate swaps	319	319	1,434	2,072	1,455
	319	319	1,434	2,072	1,455

Market risk

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

By its nature as a Listed Investment Group that invests in tradeable securities, the Group can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio would lead to a reduction in the Group's other comprehensive income of $151.9 million and $303.9 million respectively, at a tax rate of 30% (2009 : $131.3 million & $262.6 million) and a reduction in profit after tax of $1.0 million and $2.0 million respectively, at a tax rate of 30% (2009 : $0.2 million and $0.4 million). A fall of 5% and 10% in the Trading Portfolio would lead to a reduction in profit after-tax of $2.3 million and $4.7 million respectively (2009 : $0.8 million and $1.7 million). The Revaluation Reserve at 30 June 2010 was $1.3 billion (2009 : $1.0 billion). It would require a fall in the value of the Investment Portfolio of 43% after tax to fully deplete this (2009 : 38%).

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:

	2010	2009
Energy	7.92%	8.67%
Materials	23.15%	22.72%
Industrials	7.40%	6.35%
Consumer Discretionary	2.54%	2.04%
Consumer Staples	10.82%	10.43%
Banks	25.43%	24.34%
Other Financials (incl Property Trusts)	8.78%	10.82%
Telecommunications	3.58%	4.09%
Other - Health Care, Info Technology, Utilities	7.85%	4.38%
Cash	2.53%	6.16%

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

	2010	2009
BHP Billiton	12.1%	13.0%
Commonwealth	9.3%	8.7%
Westpac	8.7%	9.4%
Rio Tinto	5.4%	4.9%

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 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 longer-term 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 hedge was fully effective for the year.

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 2010, it was 1.5% of the total invested including cash (2009: 0.6%). This reduces the risk to the Group's earnings of a short-term fall in the value of securities held in the trading portfolio.

(b) Fair Value measurements

As of 1 July 2009, the group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset or liabilities that are not based on observable market data (unobservable inputs) (level 3).

30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through other comprehensive income				
Investment Portfolio (Equities)	4,340,909	-	-	4,340,909
Financial assets/(liabilities) at fair value through profit or loss				
Trading Portfolio	67,108	-	-	67,108
Investment Portfolio (Puttables)	28,071	-	-	28,071
Derivatives used for hedging	-	(551)	-	(551)
Total	4,436,088	(551)	-	4,435,537

Comparative information has not been provided as permitted by the transitional provisions of the new rules.

The fair value of financial instruments traded in active markets (including publicly traded derivatives) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over the counter derivatives) is determined using valuation techniques. The group uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in level 2 and comprise cash-flow hedges. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

(c) Numerical disclosures – Investment Portfolio

The following disclosures result from the group's early adoption of AASB 9, and apply only to investments held by the group on 7 December 2009 and subsequent to this date.

The fair value of each investment held at fair value through other comprehensive income (investment portfolio) is disclosed in note 37.

Dividend income for the period on those investments held at period end was $186.5 million (2009 $203.9 million), and dividend income for those investments sold from 7 December 2009 to the period end was $84,000.

Certain securities within the investment portfolio were disposed of between 7 December and the period end, whether during the normal course of the Company's activities as a Listed Investment Company or as the result of take-overs or acquisitions. The fair value of the investments sold during this period was $7.9 million. The cumulative gain or loss on these disposals was $4.1 million for the period after tax, which has been transferred from the revaluation reserve to the realisation reserve (refer to statement of changes in equity).

The Group has two classes of investments in the investment portfolio - i) assets that are able to be defined under AASB 9 as 'equity instruments', the fair value of which is valued through other comprehensive income and at 30 June 2010 was $4,341 million (30 June 2009 : $3,765 million) and ii) puttable instruments that cannot be classified as equity instruments under AASB 9 and are consequently accounted for at fair value through profit or loss. The fair value of these at 30 June 2010 was $28.1 million (30 June 2009 : $5.6 million).

24. Dividends

	2010 $'000	2009 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2009 of 13 cents fully franked at 30% paid on 1 September 2009 (2009: 13 cents fully franked at 30% paid on 25 August 2008).	127,348	126,031
Interim dividend for the year ended 30 June 2010 of 8 cents per share fully franked at 30%, paid 26 February 2010 (2009: 8 cents fully franked at 30% paid 2 March 2009)	78,841	78,002
	206,189	204,033
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	160,898	159,238
Reinvested in shares	45,291	44,795
	206,189	204,033
(b) Franking credits		
Opening Balance of Franking Account at 1 July	142,951	69,399
Franking Credits on Dividends Received	64,367	78,186
Tax Paid/(Refunded) during the year	(1,580)	82,808
Franking Credits paid on Ordinary Dividends paid	(88,367)	(87,442)
Closing Balance of Franking Account	**117,371**	**142,951**
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends recognised as receivables	14,739	1,092
Adjusted Closing Balance	**132,110**	**144,043**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(55,110)	(54,578)
Net available	**77,000**	**89,465**
These franking account balances would allow the Group to frank additional dividend payments up to an amount of:	179,667	208,752

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

(c) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 13 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2010 to be paid on 1 September 2010, but not recognised as a liability at the end of the financial year	128,590	

(d) Listed Investment Company capital gain account

	2010 $'000	2009 $'000
Balance of the Listed Investment Company (LIC) capital gain account	11,153	24,695
This would equate to an attributable amount of	15,933	35,278

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.

25. Earnings per share

Basic Earnings per Share	**2010**	**2009**
	Number	**Number**
Weighted average number of ordinary shares	987,110,924	975,678,049
	$'000	**$'000**
Profit for the year attributable to members	183,561	208,249
	Cents	**Cents**
Basic earnings per share	18.60	21.34
Basic net operating profit per Share	**$'000**	**$'000**
Net operating profit before net gains on investment portfolio	179,461	199,552
	Cents	**Cents**
Basic net operating profit per share	18.18	20.45

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.

26. Directors and Executives

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

	Short-term benefits $	Other Long Term benefits $	Post-employment benefits $	Share-based payments $	Total $
2010					
Non-executive Directors	463,781	-	69,463	-	533,244
Executives	2,936,103	70,000	124,462	522,796	3,653,361
Total	**3,399,884**	**70,000**	**193,925**	**522,796**	**4,186,605**
2009					
Non-executive Directors	526,807	-	47,413	-	574,220
Executives	2,804,120	35,000	236,950	544,200	3,620,270
Total	**3,330,927**	**35,000**	**284,363**	**544,200**	**4,194,490**

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:

	2010 Number	2009 Number
RE Barker	10,997	21,452
GN Driver	4,677	8,515
AJB Porter	6,300	10,920
SE Crook	-	4,304
SM Pordage	786	-
Shares awarded during the year	22,760	45,191

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 **2010**	**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**
Oct 2004	Oct 08 - Oct 09	3,686	-	-	3,686	0
Oct 2005	Oct 09 – Oct 10	28,995	-	28,995	-	0
Mar 2006	Mar 10 – Mar 11	17,391	-	17,391	-	0
Aug 2006	Aug 10 – Aug 11	10,107	-	-	-	10,107
Oct 2006	Oct 10 – Oct 11	26,186	-	-	-	26,186
Feb 2007*	N/A	23,333	-	23,333	-	0
Aug 2007	Aug 11 – Aug 12	38,569	-	-	-	38,569
Aug 2008	Aug 12 – Aug 13	40,887	-	-	-	40,887
Oct 2009	Oct 13 – Oct 14	-	39,502	-	-	39,502
Total		189,154	39,502	69,719	3,686	155,251

Award date **2009**	**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	0
Oct 2004	Oct 08 - Oct 09	29,485	-	25,799	-	3,686
Apr 2005	Apr 09 – Apr 10	9,130	-	9,130	-	0
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:

2010	Opening balance	Received as remuneration	Other changes*	Closing balance	Subject to vesting
BB Teele	1,799,205	-	90,303	1,889,508	-
DR Argus	420,875	-	100,494	521,369	-
RE Barker	738,206	30,004	(439)	767,771	89,154
TA Campbell	223,755	-	12,894	236,649	-
J Paterson	227,163	-	36,247	263,410	-
FD Ryan	83,520	-	3,247	86,767	-
CM Walter	102,162	-	25,250	127,412	-
PJ Williams	n/a	-	8,247	8,247	-
GN Driver	136,242	12,744	4,077	153,063	30,034
RM Freeman	92,906	-	3,621	96,527	-
SM Pordage	0	2,174	-	2,174	1,388
AJB Porter	64,655	17,340	402	82,397	34,675

* : includes AFIN shares issued under the Share Purchase Plan in June 2010 that do not qualify for the final dividend for the year ended 30 June 2010 and in the case of RE Barker, ELTIP shares that did not vest.

2009	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 2011 as part of remuneration for the year ending 30 June 2010. 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 :

	2010 $	2009 $
FD Ryan	13,487	13,287
SDM Wallis	n/a	21,614
CM Walter	21,007	20,789
	34,494	55,690

27. Employee information

	2010	2009
Employee numbers	**Number**	**Number**
Number of employees at balance date	16	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 (2009: 8) in the scheme were each awarded 199 shares (2009: 230) in the Group. These shares cost the Group $8,018 (2009: $8,012) to acquire on market, including brokerage.

28. 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	
		2010 $'000	2009 $'000
(a)	The Group invested surplus funds with Goldman Sachs JBWere - interest revenue received or receivable	-	4,207
(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	54	120
(c)	The Group obtains the following services from Goldman Sachs JBWere Pty Ltd - Computer services	244	287

Non-Executive 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 6. During the year, the following amounts were paid or payable to the Commonwealth Bank of Australia:

Fees and Net Interest	851	1,258

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

(a)	Administration expenses charged for the year	1,898	1,999

29. Remuneration of auditors

	Consolidated	
	2010 $	2009 $
During the year the auditor earned the following remuneration:		
PricewaterhouseCoopers		
Audit or review of financial reports	178,008	180,966
Non-Audit Services		
Taxation compliance services	53,308	100,155
Other assurance services #	7,507	7,507
Total Non-Audit Services	60,815	107,662
Total remuneration	238,823	288,628

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.

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

	Consolidated	
	2010	2009
	$'000	$'000
Profit for the year	183,753	208,427
- Fair value movement in puttable instruments	(4,780)	2,875
- Add back depreciation	130	130
- Net decrease (increase) in trading portfolio	(43,044)	102,538
- Net capital losses (gains) before tax	13	(17,152)
- Dividends received as securities under DRP investments	(40,361)	(31,537)
- Accounting adjustment for tax on scrip-for-scrip	-	(411)
- Decrease (increase) in current receivables	(3,335)	15,672
- Less increase (decrease) in receivables for investment portfolio	(1,982)	1,982
- Increase (decrease) in deferred tax liabilities	126,222	(298,493)
- Less (increase) decrease in deferred tax liability on investment portfolio	(127,329)	303,056
- Less (credit) charge for income tax on gain or loss on hybrid securities	-	148
- Increase (decrease) in current payables	(43,330)	43,998
- Less decrease (increase) in payables for investment portfolio	41,395	(42,626)
- Less (increase) decrease in dividends payable	(349)	431
- Increase (decrease) in provision for tax payable	11,997	(78,655)
- Add taxes paid on capital gains	1,073	63,741
- Movement in ELTIP account	95	170
- Capital gains tax charge taken through equity	(1,293)	-
- Increase (decrease) in other provisions/non-cash items	592	651
Net cash flows from operating activities	99,467	274,945

31. 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.

32. Contingencies

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.

33. 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:

Due within one year	509	490
Later than one year but less than five	513	1,022
Greater than five years	-	-
	1,022	1,512

34. 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 2010	Equity holding 2009
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.

35. Share based payments

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

(i) Short Term Incentive Plan

At the start of each financial year, the Remuneration Committee sets the target (cash) amount of remuneration that could be paid should all performance targets and measures be achieved. If all are achieved, 100 per cent of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

The performance measures are a combination of the performance of the Group, the investment companies to which the Group provides administration services, and personal objectives.

All of the incentive remuneration awarded is paid in cash, with 50% of the after-tax amount being used by the executive to purchase shares. All remuneration under the plan, is paid in the financial year following the year of assessment.

The executive agrees to the shares being subject to being held for two years (holding term), during which they cannot be sold. Dividends are paid to executives on these shares prior to the expiry of the holding term. Should an executive leave the Group before the holding term expires, the restriction will be lifted.

22,760 shares (2009 45,191 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $110,075 (2009 $235,234).

(ii) Executive Long Term Incentive Plan

Senior executives are awarded a number of shares equivalent to 50 per cent of the gross amount awarded under the Annual Incentive Plan. These shares 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 (the vesting period) during which time the executive will be entitled to receive dividends and hold voting rights.

The Performance Shares vest between four and five years after grant date, entirely dependent on the achievement of set quantitative measures, the Total Shareholder Return ("TSR") and the Total Portfolio Return ("TPR"), which reflect the movement in the share price of the company (TSR) and in the portfolio of investments in which the company has invested shareholders' funds (TPR). The number of shares that vest is based on the highest cumulative performance level achieved under each category. Shares that do not vest are transferred back to the group for no consideration and are cancelled.

Should an executive cease employment prior to the shares vesting, then all unvested shares will be cancelled.

Details of the number of shares awarded, vested and cancelled in the year are set out in note 26.

The fair value of shares awarded (being the price at which the shares will be acquired on market) in the period was $235,577 (2009 $205,743).

(iii) Investment Team Long Term Incentive Plan
Similar to the short term executive plan, a target cash amount of long term incentive is set each year in respect of that year, which will vest in four years time. The percentage of this target that ultimately vests four years after the award depends on the gross return of the group and the investment companies it provides administration services to.

The amount that vests will be paid in cash or shares (purchased on market at that time, based on the cash amount that vests) at the discretion of the Group.

No incentives under this plan vested in the period (2009 $nil).

(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 (2009: 8) in the scheme were each awarded 199 shares (2009: 230).

(c) 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	
	2010	**2009**
	$'000	**$'000**
Share-based payment expense	536	629

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

36. Effect of Changes in Accounting Standards

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

(i) Net profit

	Consolidated 2009 $'000
Net profit for the year (as reported last year)	**103,479**
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#	43
Less : Tax credit on above	(13)
Add : Impairment Charge*	153,990
Less : Tax credit on above	(46,197)
Less : Puttable instruments not classified as equity^	(4,107)
Add : Tax credit on above	1,232
Restated net profit	**208,427**
	Cents
Earnings per share (as reported last year)	**10.61**
Restated earnings per share	**21.34**

: Previously reported in "Net gains/losses on Other Securities" on Income Statement
* : Previously reported in "AASB 139 'Impairment' revaluation charge" on Income Statement
^: Previously reported through equity as 'available for sale' assets.

(ii) Other Comprehensive Income

	Consolidated 2009 $'000
Net unrealised losses on investment portfolio & interest-rate swaps (as reported last year)	**(636,849)**
Less : Net Unrealised Losses on Other Securities still held in the investment portfolio at 7 December 2009 (as above)	(43)
Add : Tax credit on above	13
Less : Impairment Charge	(153,990)
Add : Tax credit on above	46,197
Add : Puttable instruments not classified as equity	4,107
Less : Tax credit on above	(1,232)
Restated other comprehensive income (expense)	**(741,797)**

(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 consolidated 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 revaluation charge 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. The reclassification of puttable instruments did not affect Retained Profits or the Revaluation reserve as the losses recognised in net profit as per (i) above were subsequently transferred back into the Revaluation Reserve.

(iv) Classification of Investments

As described in note 1, the adoption of AASB 9 has resulted in a change in the classification of the group's / company's investments, although this has not impacted the value of these investments.

AIFRS Classification	**As previously reported $'000**	**Restated $'000**
Investment Portfolio		
Available for sale assets*	3,745,024	129
Assets designated at fair value through profit or loss (hybrids)	25,882	13,184
Assets at fair value through other comprehensive income	-	3,751,983
Assets at fair value through profit or loss (ie puttables)	-	5,610
Trading Portfolio		
Assets held for trading – fair value through profit or loss	24,064	24,064
Total Portfolio	**3,794,970**	**3,794,970**

* Investments held in the investment portfolio at 30 June 2009, which were sold prior to the adoption of AASB 9 on 7 December 2009, have not been reclassified as assets at fair value through other comprehensive income, as the transitional provisions of AASB 9 only allow retrospective application of the new standard to investments held on the date of adoption of this standard.

37. Holdings of Securities at 30 June 2010

The below list are those of securities held in the investment portfolio that are valued at fair value through Other Comprehensive Income. They do not include securities in the trading portfolio, puttable instruments or, in the case of the comparatives, securities sold prior to 7 December 2009.

Individual holdings in the portfolio may change during the course of the year.

	2010 $'000	**2009 $'000**
AGL Energy	63,019	57,660
Alumina	21,843	20,697
Amcor	80,539	50,227
AMP	53,306	49,929
ANZ Banking Group	138,513	99,957
APN News & Media	20,802	15,457
ASG Group	8,293	3,383
Australian Infrastructure Fund	55,510	37,508
AXA Asia Pacific	44,440	30,925
BHP Billiton	523,596	482,849
Boral	18,366	15,508
Bradken	43,768	25,706
Brambles	46,001	45,820
Brickworks	17,662	20,322
Campbell Brothers	21,859	10,643
Cedar Woods	8,894	4,995
CFS Retail Property	37,987	30,904
Coca-Cola Amatil	46,600	32,901
Commonwealth Property Office	24,622	21,974
Commonwealth Bank	412,121	330,443
Computershare	86,539	73,570
Coventry Group	3,053	1,502
Crane Group	1,293	1,587
CSL	7,065	6,329
CSR	12,326	10,615
Diversified United Investments	34,767	31,279
Djerriwarrh Investments	33,870	32,581
Eastern Star Gas	8,993	-
Equity Trustees	9,828	8,408
Fairfax Media	12,762	11,840
Fleetwood Corporation	6,759	4,339
Foster's Group	36,875	33,611
GUD Holdings	19,548	12,840

	2010	2009
	$'000	$'000
GWA International	20,110	15,367
Healthscope	8,086	2,385
Hills Industries	9,164	6,692
Iluka Resources	6,464	3,975
Incitec Pivot	49,357	42,695
Insurance Australia Group	6,820	7,020
Iress Market Technology	9,010	7,517
Metcash	19,903	19,395
Milton Corporation	46,032	41,768
Mirrabooka Investments	14,486	12,520
NAB Income Securities	2,256	2,175
National Australia Bank	203,085	189,276
Nufarm	13,677	24,565
Oakton	4,668	4,163
Oil Search	73,146	60,765
OneSteel	6,217	5,311
Orica	63,229	54,497
Origin Energy	73,042	71,063
Peet	23,598	17,782
Perpetual	22,786	14,275
Programmed Maintenance Services	3,393	3,733
QBE Insurance Group	78,922	78,113
Ramsay Health Care	9,637	3,664
Ramsay Health CARES	10,926	10,523
Rio Tinto	238,223	122,326
Rio Tinto New	-	64,221
Santos	83,937	96,794
Sonic Healthcare	1,604	1,894
Telstra Corporation	158,665	165,500
Templeton Global	6,004	5,411
Toll Holdings	44,566	50,000
Tox Free Solutions	14,568	9,378
Transurban Group	60,100	39,945
Trust Company	8,590	3,654
West Australian Newspapers	52,622	34,535
Wesfarmers	176,654	139,659
Wesfarmers PPS	40,309	32,903

	2010	2009
	$'000	**$'000**
Westfield Group	51,675	45,371
Westpac Banking Corporation	387,155	358,411
Woodside Petroleum	109,183	102,897
Woolworths	167,625	163,530
TOTAL	**4,340,909**	**3,751,983**
Puttable Instruments	28,071	5,610
Assets sold pre-7 December	-	13,313
Total Investment Portfolio	**4,368,980**	**3,770,906**
Trading Portfolio	67,108	24,064
Total investments	**4,436,088**	**3,794,970**

38. Parent entity financial information

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2010 $'000	2009 $'000	2008 $'000
Balance sheet			
Current assets	209,876	306,414	431,718
Total assets	**4,580,123**	**4,078,046**	**5,098,808**
Current liabilities	57,498	98,028	123,280
Total liabilities	**604,805**	**518,434**	**845,963**
Shareholders' equity			
Issued capital	1,865,998	1,737,790	1,692,908
Reserves			
Revaluation reserve	1,322,485	1,012,034	1,753,742
Realised capital gains reserve	337,277	354,278	468,904
General reserve	23,637	23,637	23,637
Interest rate hedging reserve	(551)	(1,455)	1,709
Retained earnings	426,472	433,328	311,945
	2,109,320	**1,821,822**	**2,559,937**
Total shareholders' equity	**3,975,318**	**3,559,612**	**4,252,845**
Profit or loss for the year	**183,048**	**207,715**	n/a
Total comprehensive income	**493,682**	**(534,082)**	n/a

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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 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 the financial statements comply 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.

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

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

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 2010 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 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

David Coogan
Partner

Melbourne
26 July 2010