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31 August 2010

The Manager
Company Announcements Office
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

**Australian Foundation Investment Company Limited
Statutory Annual Report, Annual Shareholder Review,
Notice of Meeting and Proxy Form**

Dear Sir or Madam

Please find attached the 2010 Statutory Annual Report, Annual Shareholder Review, Notice of Meeting and Proxy Form being sent to shareholders.

Yours faithfully

Simon Pordage
Company Secretary

EXPERIENCE
INCOME
GROWTH

STATUTORY ANNUAL REPORT 2010

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

CONTENTS

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

SUMMARY OF RESULTS

Total Portfolio Return

Total portfolio return after tax and management fees over the year to 30 June 2010 (change in net asset backing per share plus dividends reinvested) was an increase of 15.6 per cent whereas the S&P/ASX 200 Accumulation Index increased 13.1 per cent over the same period.

Total Shareholder Return

Total shareholder return measured by change in share price plus dividends over the 12 month period was positive 12.9 per cent. The difference between the share price return and the portfolio return was as a result of the share price moving to a reduced premium over net asset backing by the end of the year.

Net Operating Profit

Net operating profit was $179.5 million (last year $199.6 million), down 10.1 per cent from the previous corresponding period. Income from investments fell as companies substantially reduced their dividend payments during the year. However, the substantial turnaround in the contribution from the trading portfolio as equity markets experienced more positive conditions helped offset some of this decline.

Net Profit After Tax

Net profit after tax was $183.8 million (last year $208.4 million). Note last year's comparative figure has been restated from $103.5 million following adoption of new accounting standards in December 2009 which changed the treatment of realised and unrealised gains and losses and impairment.

Earnings Per Share

Earnings per share based on net operating profit were 18.2 cents compared with 20.5 cents last year.

A Fully Franked Final Dividend

A fully franked final dividend of 13 cents per share was announced. This final dividend is unchanged from last year. The final dividend of 13 cents brings total dividends for the year to 21 cents per share fully franked, the same as last year.

Listed Investment Company Capital Gains

Part of the final dividend is sourced from pre tax listed investment company capital gains of 1.4 cents per share (last year 3.0 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

The Dividend Reinvestment Plan

The Dividend Reinvestment Plan is in operation for the final dividend with a discount of 2.5 per cent applied.

Management Expense Ratio

Management expense ratio was 0.16 per cent. This was down from last year's figure of 0.19 per cent as a result of the increase in value of the portfolio and the decline in expenses from the previous year.

Net Asset Backing at 30 June 2010

Net asset backing at 30 June 2010 was $4.49 per share (before providing for the 13 cent final dividend). At 30 June 2009 the net asset backing was $4.06 per share (before providing for the 13 cent final dividend).

DIRECTORS' REPORT

We are pleased to report to the shareholders of Australian Foundation Investment Company Limited ("AFIC" or "the Company") in relation to the financial year to 30 June 2010 as follows.

ABOUT THE COMPANY

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and growth of capital invested. The primary investment goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

Approach to Investing

The investment philosophy is built on taking a medium to longer term view of value which means that the aim is to buy and hold individual stocks for the long term based on selection criteria which, in summary, include:

- formulation and execution of business strategy of the Company and its underlying business value;
- key financial indicators, including cash flow, prospective price earnings relative to projected growth, sustainability of earnings and dividend yield; and
- corporate governance practices.

The Company has access to lines of credit of up to $125 million which allows it to borrow money when appropriate investment returns are available.

The Company also uses options written against its trading portfolio to generate additional income. However, for risk management purposes, at any one time the trading portfolio does not comprise more than 10 per cent of the total investment portfolio.

Our Structure

The Company has a 'closed end' structure which means that the number of shares on issue is fixed and set by the Board. As a result, the Company does not issue new shares or cancel them as investors enter and leave the fund. This allows management to concentrate on the performance of the funds invested over the longer term without having to deal with continuous inflows or outflows of monies.

Fees

The management expense ratio to 30 June 2010 was 0.16 per cent. The Company does not charge entry or exit fees when shareholders acquire or dispose of their holdings although transaction costs will be borne when buying or selling through a stockbroker. There are no trailing commissions or portfolio performance fees.

Investing in the Company

By investing in the Company, shareholders have immediate access to a diversified portfolio numbering around 75 of Australia's major companies and to a Board and Investment Committee with extensive investment skills and practical business experience. The Company's shares can be bought or sold through the Australian Securities Exchange (ASX Code: AFI).

Transparency

We take an active approach to keeping shareholders informed about the Company's activities and performance including yearly and half-yearly profit announcements, regular shareholder briefings and access to all Company announcements, including monthly net tangible asset announcements, through the Australian Securities Exchange and the Company's website www.afi.com.au

Chairman's Comments

Australian equity market growth for the 12 months to 30 June 2010 as measured by the S&P/ASX 200 Accumulation Index return which includes dividends was up 13.1 per cent. AFIC's return on a comparative basis was 15.6 per cent over this period, with the portfolio particularly benefiting from the strong recovery in the banking sector over the year which returned 21.3 per cent.

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.

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.

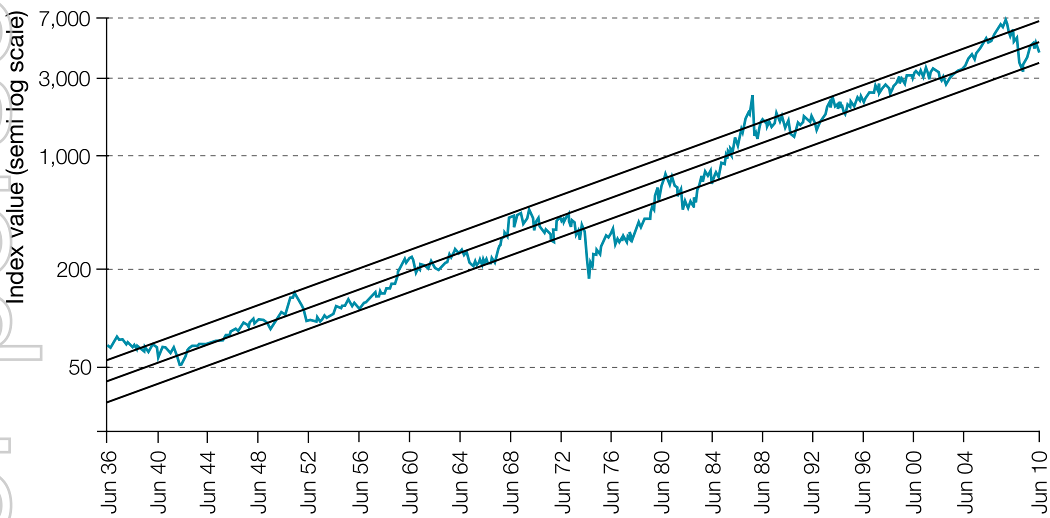
The market is also looking for evidence to support the positive expectations for Company earnings in the upcoming reporting season and that governments in developed countries are effectively addressing their high debt levels through appropriate fiscal adjustment.

This year's federal election has also added political uncertainty to the market outlook.

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.

The following chart of the All Ordinaries Price Index measures the share price return of the Australian market since 1936. The long term return over the period is a compound average return of approximately 7 per cent per annum in price terms. The market is currently trading slightly below its long term average.

All Ordinaries Price Index – Long Term Performance



Note: A semi log scale has been used to better show a comparison of the relative size of the percentage changes over the period.

Profit Performance and Dividends

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 per cent 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.

Net profit after tax 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 in December 2009 which changed the treatment of realised and unrealised gains and losses and impairment.

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 was 2.5 per cent.

Part of the final dividend is sourced from listed investment company capital gains of 1.4 cents per share pre tax (last year 3.0 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

Investment Portfolio

The largest contributors by value to the portfolio's performance over the financial year were Commonwealth Bank, BHP Billiton, Rio Tinto, Wesfarmers and Westpac.

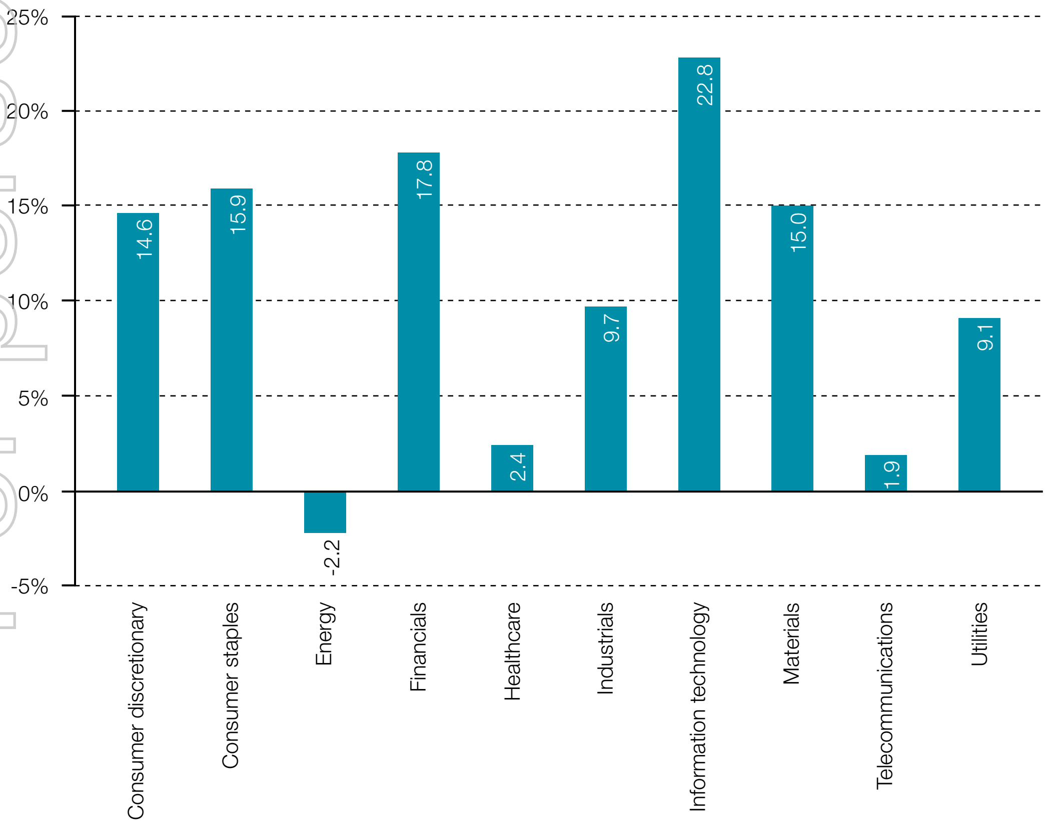
The chart below highlights the strong recovery made across different sectors of the market during this period.

Major purchases made during the financial year were in Australian Infrastructure Fund, Amcor, ANZ, Hastings Diversified Utilities Fund, Oil Search, Perpetual, QBE Insurance, Transurban, Westpac and Woodside Petroleum. Eastern Star Gas, a company focused on the exploration and development of coal seam gas in northern New South Wales, was the only new investment added to the investment portfolio during the year.

Only a small number of sales occurred. 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.

In total $176.7 million of purchases were made in the investment portfolio during the period whereas sales totalled $21.2 million.

ASX 200 Accumulation Index Sector Returns – 12 Months to 30 June 2010



Trading Portfolio

The trading portfolio was utilised more actively during the year to take advantage of specific short term opportunities. These opportunities arose as a result of share price pressure in companies we already hold in the investment portfolio and spikes in volatility which allowed for attractive returns from call option writing activity. At 30 June 2010, this portfolio was $67.1 million versus $24.1 million last year. The trading portfolio is still relatively small representing 1.5 per cent of the total portfolio with the major holdings comprising ANZ, BHP Billiton, Origin Energy and QBE Insurance.

The chart below highlights the breakdown of the total portfolio to different sectors of the market.

Directorship Matters

As previously advised to shareholders Mr Peter Williams was appointed as a Director of the Company, effective 3 February 2010. Peter was Managing Director of Equity Trustees Limited from 2003 until his retirement in February 2010. He has over 40 years' experience in the financial services industry. Prior to joining Equity Trustees Limited, he was General Manager, Superannuation and Portfolio Services at Perpetual Limited and before that was General Manager and Chief Executive Officer of AXA Trustees Ltd.

He has broad experience in investments, insurance and superannuation and his depth of relevant business experience is a valuable addition to the Board.

Company Position

Capital Changes

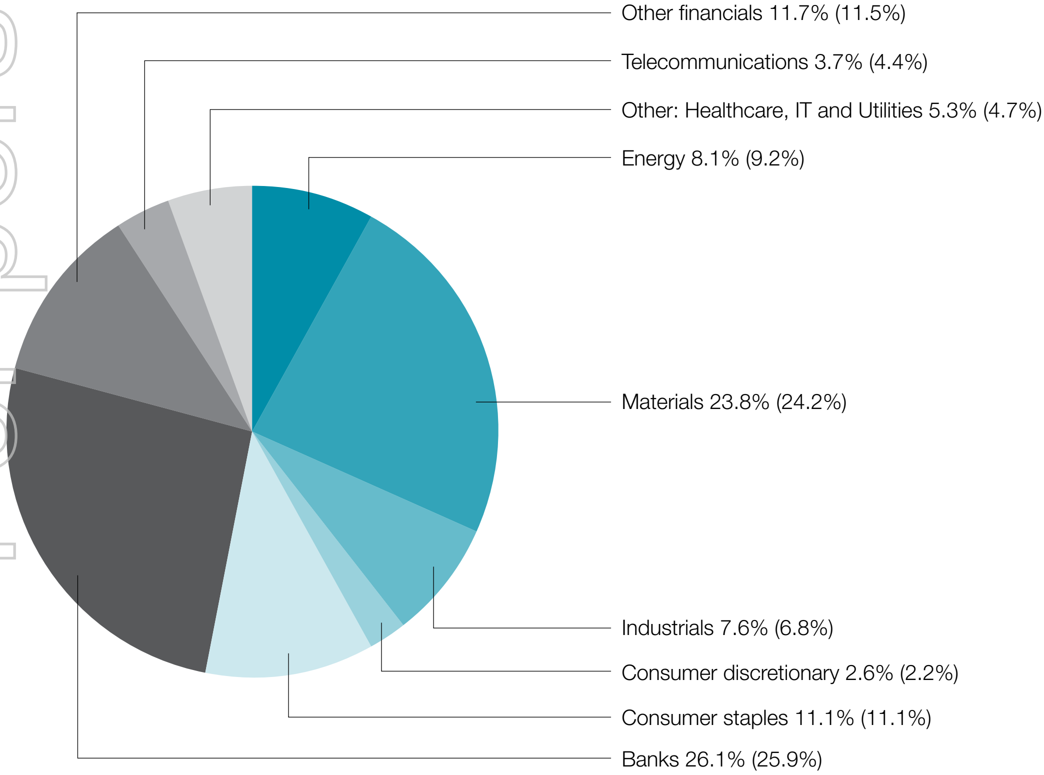
As a result of the reinvestment of dividends, 5,918,101 new shares were issued at a price of $4.69 per share in September 2009 and 3,637,981 new shares were issued at a price of $4.82 per share in February 2010.

In addition, as a result of the Share Purchase Plan in June 2010, 17,979,373 shares were issued at $4.62. These shares do not participate in the final dividend for the year ended 30 June 2010 but will rank fully for all future dividends.

The Company's buy-back facility remains open although no shares were bought back during the year.

The Company's contributed equity, net of the share buy-backs and share issue costs, rose $128.1 million to $1.87 billion from $1.74 billion. At the close of the year the Company had 1,007.1 million shares on issue.

AFIC Investment by Sector (excluding cash) as at 30 June 2010 (2009)



Dividends

Directors have announced a fully franked final dividend of 13 cents per share, the same as last year.

The dividends paid during the year ended 30 June 2010 were as follows:

	2010 $'000
Final dividend for the year ended 30 June 2009 of 13 cents per share fully franked at 30 per cent, paid on 1 September 2009	127,348
Interim dividend for the year ended 30 June 2010 of 8 cents per share fully franked at 30 per cent, on 26 February 2010	78,841
	206,189

Financial Condition

The Company's primary source of funds consists of its shareholders' funds as noted above. However, the Company also has agreements with National Australia Bank and Commonwealth Bank of Australia for short term loan facilities of $125 million (see Note 6). At various points during the year, some of these facilities were drawn down. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets.

Listed Investment Company Capital Gains

In 2001 the government made changes to capital gains tax relating to listed investment companies ("LICs"). The changes affect AFIC in situations where the Company makes a taxable capital gain on the sale of equity securities from its investment portfolio which have been held for longer than one year. The changes mean that AFIC is able to pass on to certain shareholders a special tax deduction attached to its dividend. Its purpose is to put shareholders into a similar after tax position to that which would apply if the capital gain had been made by them directly.

Arising from the sale of some of our holdings, the Company has made some taxed LIC capital gains. This year's final dividend will be partly sourced from these gains. As a result, we are able to include with the final dividend statement advice of each shareholder's proportion of these LIC capital gains. This is called an 'LIC capital gain attributable part'. This year it is 1.4 cents per share (last year, the equivalent figure was 3.0 cents per share). The amount which shareholders may be able to claim as a tax deduction depends on their individual situation. Details will be provided in the dividend statement.

Likely Developments

The Company intends to continue its investment activities going forward as it has done since its inception in 1928. The results of these investment activities depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors. These include economic growth rates, inflation, interest rates, exchange rates and taxation levels. There are also industry and company specific issues such as management competence, capital strength, industry economics and competitive behaviour.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

Directors are not aware of any other significant changes in the operations of the Company, or the environment in which it operates, that will adversely affect the results in subsequent years.

Events Since Balance Date

The Directors are not aware of any matter or circumstance not otherwise disclosed in the financial statements or the Directors' Report which has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

The Company's operations are such that they are not materially affected by environmental regulations.

Rounding of Amounts

The Company is of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report. Unless specifically stated otherwise, amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

BOARD AND MANAGEMENT

Directors

Bruce B Teele BSc BCom (Melb). Chairman and Non-Executive Director. Chairman of the Investment Committee. Member of the Nomination Committee and the Remuneration Committee.

Mr Teele is a company Director and has been a Director of the Company since 1966 and Chairman since 1984. He is also Chairman of Djerriwarrh Investments Limited and AMCIL Limited and a Director of The Myer Family Company Ltd. He was formerly the Executive Chairman of the JBWere Group.

Donald R Argus AC FCPA SF Fin. Independent Non-Executive Director. Chairman of the Remuneration Committee. Member of the Audit Committee and the Investment Committee.

Mr Argus has been a Director of the Company since May 1999. Mr Argus is Chairman of the Advisory Board of Bank of America Merrill Lynch Australia. He is a former Chairman of BHP Billiton and Brambles Ltd and a former Director of Southcorp Ltd. He was formerly Managing Director and Chief Executive of National Australia Bank Ltd. He is also a former member of the International Advisory Board of Allianz Aktiengesellschaft and of the International Advisory Committee of the New York Stock Exchange Ltd.

Ross E Barker BSc (Hons) (Melb) MBA (Melb) F Fin. Managing Director. Member of the Investment Committee. Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Barker became Chief Executive Officer in February 2001 having been an Alternate Director of the Company since April 1987. He was appointed Managing Director in October 2001. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited.

Terrence A Campbell AO BCom (Melb). Deputy Chairman and Non-Executive Director. Member of the Investment Committee.

Mr Campbell has been a Director of the Company since September 1984 and was appointed Deputy Chairman in September 2008. He is Senior Chairman of Goldman Sachs & Partners Australia Pty Ltd (formerly Goldman Sachs JBWere) and was formerly Chairman and Chief Executive of Goldman Sachs JBWere. He is also Chairman of Mirrabooka Investments Limited and a Director of Djerriwarrh Investments Limited and AMCIL Limited.

John Paterson BCom (Hons) (Melb) ASA F Fin. Independent Non-Executive Director. Chairman of the Nomination Committee and member of the Investment Committee and the Remuneration Committee. Chairman of the Company's subsidiary, AICS.

Mr Paterson is a company Director who was appointed to the Board in June 2005. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Deputy Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

Fergus D Ryan CA. Independent Non-Executive Director. Chairman of the Audit Committee. Member of the Investment Committee and the Nomination Committee. Director of the Company's subsidiary, AICS.

Mr Ryan is a company Director and Chartered Accountant. He was appointed a Director of the Company in August 2001. He is also a Director of the Commonwealth Bank of Australia Limited. He is also a Councillor of the Committee for Melbourne and a Director of the Centre for Social Impact. He was formerly the Strategic Investment Coordinator and Major Projects Facilitator for the Federal Government and is a former Deputy Chairman of the Council of the National Library and a former Director of Clayton Utz and the National Australia Day Council. He was also formerly a senior partner of Arthur Andersen.

Catherine M Walter AM LLB (Hons) LLM MBA (Melb). Independent Non-Executive Director. Member of the Investment Committee, Remuneration Committee and the Audit Committee.

Mrs Walter is a solicitor and company Director. She has been a Director of the Company since August 2002. Mrs Walter is a Director of Walter and Eliza Hall Institute of Medical Research, Victorian Funds Management Corporation, Melbourne Business School and Payment Systems Board. She also chairs Australian Synchrotron Company Ltd. She was formerly a Director of Australian Securities Exchange Ltd, National Australia Bank Ltd, Orica Ltd and James Hardie Industries N.V. and is a former member of the Financial Reporting Council.

Peter J Williams Dip.All, MAICD, FAIM. Independent Non-Executive Director. Member of the Investment Committee.

Mr Williams was appointed a Director of the company in February 2010. He is Chairman of Olympic Park Sports Medical Centre Pty Ltd and a Director of the Australian Baseball Federation, National Australia Trustees Limited and the Foundation for Young Australians. Mr Williams was formerly Managing Director of Equity Trustees Limited and a Director of the Trustee Corporations Association of Australia.

Senior Executives

Geoffrey N Driver B Ec, Grad Dip Finance. General Manager Business Development and Investor Relations.

Mr Driver joined the Company in January 2003. Previously, he was with National Australia Bank Ltd for 18 years in various roles covering business strategy, marketing, distribution, investor relations and business operations.

R Mark Freeman BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD). Chief Investment Officer.

Mr Freeman joined the Company in February 2007. He was formerly a Partner with Goldman Sachs JBWere. His primary role there was assisting investment companies with their investment and dealing activities. As such he has a depth of knowledge and experience of investment markets and the Company's investment approaches, policies and processes.

Simon M Pordage LLB (Hons), FCIS, MAICD. Company Secretary.

Mr Pordage joined the Company in February 2009. He is a Chartered Secretary and has over 12 years' company secretarial experience and was previously Deputy Company Secretary for Australia and New Zealand Banking Group Limited and prior to that was Head of Board Support for Barclays PLC in the United Kingdom. He was the inaugural recipient of the Chartered Secretaries Australia 'Young Governance Professional of the Year' award in 2007. He is a member of CSA's Victorian Council and a member of two of their national committees, the Legislation Review Committee and the Communication Committee.

Andrew JB Porter MA (Hons) (St And), FCA. Chief Financial Officer.

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 17 years' experience in accounting and financial management both in the United Kingdom with Andersen Consulting and Credit Suisse First Boston and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is a member of the User Focus Group of the Australian Accounting Standards Board. He is also a Non-Executive Director of the Royal Victorian Eye and Ear Hospital.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2010 and the number of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
BB Teele	13	13	45	45	-	-	2	2	3	3
DR Argus	13	13	45	31	4	4	2	2	-	-
RE Barker	13	12	45	41	-	4#	-	2#	-	-
TA Campbell	13	12	45	33	-	-	-	-	-	-
J Paterson	13	12	45	39	-	-	2	2	3	3
FD Ryan	13	13	45	42	4	4	-	-	3	3
CM Walter	13	13	45	34	4	3	2	1	-	-
PJ Williams	5	5	20	20	-	-	-	-	-	-

Attended meetings by invitation.

Retirement, Election and Continuation in Office of Directors

Mr PJ Williams, having been appointed to the Board in February 2010, will retire and being eligible, will offer himself for election at the forthcoming 2010 Annual General Meeting (AGM). Messrs DR Argus and BB Teele, having last been re-elected by shareholders at the 2007 AGM, will retire and being eligible, will offer themselves for re-election at the forthcoming AGM.

Insurance of Directors and Officers

During the financial year, the Company paid insurance premiums to insure the Directors and Officers named in this report to the extent allowable by law. The terms of the insurance contract preclude disclosure of further details.

Directors' Holdings of Securities Issued by the Company

As at the date of this report, Directors who hold shares issued by the Company for their own benefit, or who have an interest in holdings in the name of another party, and the total number of such securities, are as follows:

	Shares
BB Teele	1,889,508
DR Argus	521,369
RE Barker	767,771
TA Campbell	236,649
J Paterson	263,410
FD Ryan	86,767
CM Walter	127,412
PJ Williams	8,247

In accordance with the Company's policy, no AFIC shares held by Directors are held subject to margin loans.

REMUNERATION REPORT

Remuneration Report – Detail

There are three sections to this Remuneration Report as follows:

1. An introduction, comprising an explanation of terms and answers to frequently asked questions.
2. A snapshot of actual remuneration outcomes for financial year 2010.
3. Additional disclosure as required by section 300A of Corporations legislation 2001.

Section 1. Introduction

Explanation of Terms

The Group uses a number of different terms in the course of its business. Below are some of those that are used in the Remuneration Report.

AFIC
Australian Foundation Investment Company Limited, also referred to as "the Company" and "AFIC". The "Group" refers to the Company plus its subsidiary, Australian Investment Company Services Limited ("AICS"). The Company has no employees other than Non-Executive Directors.

AICS
Australian Investment Company Services Limited, the Company which employs all members of staff, including Senior Executives (including the Managing Director) and the investment team, that provide investment, operational and administration services to the Company and the other investment companies.

ELTIP
See Long Term Incentive Plans (under Performance-Related Pay).

Executives
The Group has five Executives or Key Management Personnel ("KMP"), who manage the day-to-day affairs of the Group. They are Ross Barker (Managing Director), Geoff Driver (General Manager Business Development and Investor Relations), Mark Freeman (Chief Investment Officer, or "CIO"), Andrew Porter (Chief Financial Officer) and Simon Pordage (Company Secretary). All executives are employed by AICS.

Fixed Annual Remuneration
This is the base remuneration paid to employees each year, including fringe benefits, such as the provision of a car, parking and other benefits that can be structured by the recipient. Restructuring does not change the amount borne by the Group.

Gross Return
The total return on the Company's net asset backing per share plus the dividends reinvested, grossed up for the franking credits on dividends paid. This is used as a measure in determining short term and long term incentive payments for the investment team.

Holding Lock
The period of time during which shares purchased by or for executives with a portion of their short term incentive payment cannot be sold. The executive will still receive dividends on shares that are under a holding lock as they are ordinary shares, which have been purchased by the executives themselves. The holding lock is lifted should an employee leave the Group.

Non-Executive Directors
Board Members who do not have day-to-day responsibility for management of the Company. Currently, all Directors of the Company other than Ross Barker are Non-Executive Directors.

Other Investment Companies
AMCIL Limited (AMH), Djerriwarrh Investments Limited (DJW) and Mirrabooka Investments Limited (MIR). Executives and staff of AICS provide administrative and managerial support for these companies. The Group is recompensed by these companies for these services (including amounts awarded under Short or Long Term Incentive Plans). Performance in the provision of these duties is one of the measures in determining short term incentives.

Performance-Related Pay
This is the component of the executive's remuneration that is dependent on the individual's performance and the performance of the Company and the Other Investment Companies. It is divided into:

- Short Term Incentive Plans
  A component of remuneration that is based on past performance against a number of measures. There are two Short Term Incentive Plans – one for the executives, excluding Mark Freeman, which looks to the past year's performance for quantitative measures and one for the investment team, including Mark Freeman, which looks back over periods of one to 10 years for its quantitative measures.
- Long Term Incentive Plans
  A component of remuneration that is based on performance over a period of four to five years (for the ELTIP and four years for the investment team). There are two Long Term Incentive Plans – one for the executives, excluding Mark Freeman, called the Executive Long Term Incentive Plan ("ELTIP") and one for the investment team, including Mark Freeman.

Performance Shares
Ordinary shares in the Company that may be awarded to executives under the ELTIP. Performance shares are purchased on-market, not issued by the Company.

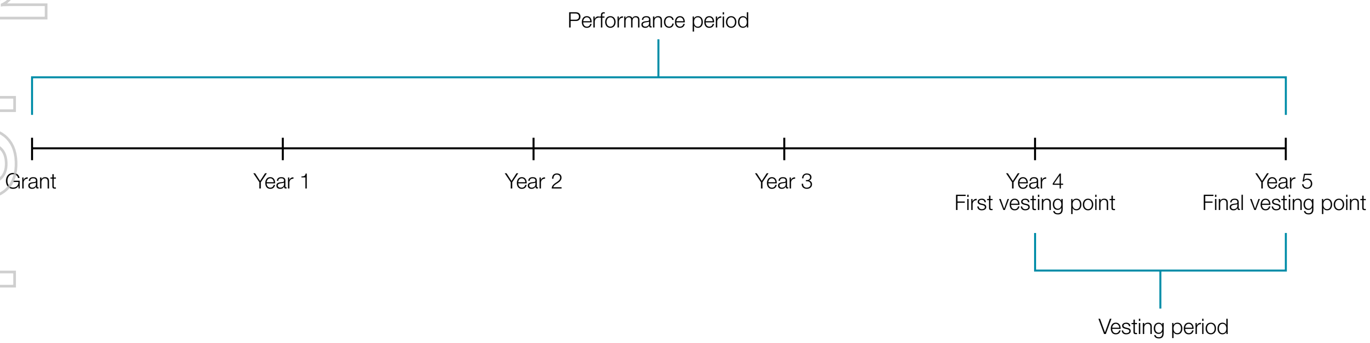
Investment Return
This is the straight measure of the return generated by the investments of the Company, including cash. This is used as a measure in determining incentive payments for the investment team.

Risk/Reward Return
This is the measure of the return generated by the portfolio, including dividends reinvested, against the risk of investing in that portfolio measured by the standard deviation of the monthly returns from that portfolio. This is used as a measure in determining incentive payments for the investment team.

Total Portfolio Return ("TPR")
This is the movement in the net asset backing of the Company (per share) plus the dividends reinvested. This is used as a measure in determining incentive payments under the executives' Short Term Incentive Plan and ELTIP.

Total Shareholder Return ("TSR")
This is the movement in share price plus the dividends reinvested. This is used as a measure in determining incentive payments under the executives' Short Term Incentive Plan and ELTIP.

Performance Period
This is the period over which Company, team or individual performance is assessed to determine whether short term or long term incentives are paid or vest to plan participants. The diagram below depicts the ELTIP performance and vesting periods (including initial and final vesting points). Each of these terms is defined below.



Vesting Point

Four years after Performance Shares are granted to executives under the ELTIP, Company and individual performance is measured against hurdles to determine what proportion of shares will vest, i.e. will be released to participants. This measurement point is called the vesting point. There are potentially 13 vesting points under the ELTIP, starting at this first test (at the end of year four) and at each month end thereafter extending until the fifth year of the performance period.

Vesting Period

The Vesting Period for the ELTIP extends from the initial Vesting Point (see definition above) to the final (13th) Vesting Point at the end of the fifth year of the performance period. Dividends on Performance Shares that are subject to a Vesting Period are paid to the relevant executive and these are taken into consideration in setting their remuneration levels. Executives who are awarded shares under the ELTIP are not permitted to enter into arrangements that limit the direct risk of these shares not vesting.

Some Questions Answered

Why are there two different incentive schemes? (see pages 24 to 26 for details on the schemes)

The executives (except for the CIO) and the investment team each have two plans – an Executive Short Term Incentive Plan and ELTIP and an investment team Short Term Incentive Plan and Long Term Incentive Plan. The purpose of the AFIC incentive schemes is to focus participants on achieving objectives specific to their roles. As the roles and objectives of the Senior Executives and investment team are different, it is necessary to provide separate incentives to focus each team on the different business-critical measures they are able to impact.

The investment team plans were specifically designed with advice from the Company's external experts, to align remuneration with the outcome of the Company's investment objectives.

As the executives, with the exception of the Managing Director and the CIO, are not directly responsible for determining the Company's investment strategies and advising on investment decisions, it is desirable that their plans have different metrics to those of the investment team. External advice was also received in designing these plans.

The Remuneration Committee will continually monitor the effectiveness of operating these four plans.

Why are personal objectives included in executive incentive plan performance conditions?

Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics, such as advice to the Board, succession planning, management of staff, risk management, promotion of the corporate culture and satisfaction of key internal stakeholders. These metrics are important determinants of business success.

Why are the results of other listed investment companies (LICs) taken into account in determining incentive payments? (see pages 34 to 35 for the results of the measures for all the LICs)

AFIC, through its subsidiary AICS, receives payments from the other LICs, which offset the cost of the executives and the entire AICS team. The AICS Board, and the AFIC Remuneration Committee, therefore felt it appropriate that the performance of executives in meeting the requirements of these LICs be taken into account. The fee received from the other LICs takes into account incentive payments to executives.

If, for example, only 50 per cent of an executive's short term incentive measures are rated 'out-perform', why would 50 per cent of the incentive not be forfeited?

There are several measures that determine short term incentive payout. It is possible for an executive to 'out-perform' (i.e. exceed target) on some measures and meet target or even 'under-perform' on other measures. The executive is allocated an aggregate score based on their performance across all the measures (taking into consideration the weighting of each measure). The quantitative measures are only part of the assessment that the Remuneration Committee makes in determining an executive's incentive. Personal objectives and the performance of other LICs is also considered, as noted above.

As AFIC is a medium to long term investor, why is so much of the incentive short term?

Although part of the investment team's incentive is called short term incentive the results from three, five, eight and 10 years as well as just one year are utilised in its determination.

Executives' incentives are split into two thirds short term and one third long term incentive. The other Short Term Incentive Plan is designed to reward executives for the achievement of the Company's annual business objectives, which are important milestones on the way to achieving longer-term, strategic business objectives.

Is it possible for an executive to earn more than target?

Yes. Target performance will result in an incentive payment at target level, which may represent an expected level of performance. Should performance be significantly better (out-performance) then a higher amount could be paid.

How many times is the LTIP assessed for vesting? (see page 20 for details of the dates over which LTIP is assessed)

For the investment team, there is only one LTIP assessment date.

For executives other than the CIO, there are potentially 13 assessment dates. If the initial test results in nil vesting, the performance condition may be retested at the end of each month for a further 12 months only. If no vesting has been achieved at the end of the retesting period, the grant lapses. This means that performance is assessed over a period that reflects between four and five years of the Company's performance.

Who decides on the overall level of executive remuneration? (see page 27 for more detail on the composition of the Committee, and page 21 for details on external advisers)

The Board determines the Managing Director's remuneration on the advice of the Remuneration Committee. The Managing Director discusses executive remuneration with the Remuneration Committee, who make recommendations to the Board, utilising advice from external sources such as Ernst & Young and Deloitte. The Company also participates in the annual McLagan and FIRG surveys of Fund Managers to understand current remuneration levels and practices.

Why are executives paid dividends on shares awarded under Long Term Incentive Plans that have not vested?

External advice was received when the ELTIP scheme was set up that the simplest approach was to purchase ordinary shares on-market in the name of the relevant executive and then to have them vest or be cancelled under the terms of the plan. As ordinary shares, dividends are paid on them and they are eligible to participate in rights issues.

As part of the scheme, these dividends are taken into account when reviewing an executive's fixed annual remuneration, and are disclosed accordingly.

Why is the S&P/ASX 200 Index used as a comparator group for AFIC?

The majority of the companies that AFIC invests in are included in the S&P/ASX 200 Index, and out-performance of this index over time should be an indicator of the value added by the Company to shareholders' wealth.

What is an accumulation index?

This measure of the return on an investment includes the price return and theoretical reinvestment of dividends and is considered the best measure of overall wealth generation as opposed to a simple price index which ignores dividends. AFIC is very conscious of the importance of dividends to shareholders, and the use of an accumulation index reflects this.

Section 2. Actual Remuneration Outcomes

Table 1: Executive Remuneration – Remuneration Outcomes Summary

The table below is a voluntary disclosure of actual remuneration earned or received by executives. The Board notes that statutory reporting can distort the value of compensation received as it includes an accounting charge for long term incentive that may or may not be received in future years. The Board wanted to include the table below to provide additional clarity to shareholders around actual payments. The required audited disclosures are shown on table 2 on pages 30 to 31 and details of executives' shareholdings are shown on page 74.

	Total Fixed Annual Remuneration $	Percentage of Total	Payment on Commencing Employment $	Percentage of Total	Short Term Incentive Paid $	Percentage of Total	*Prior Years Long Term Incentive Vested at Cost $*
Ross Barker: Managing Director							
2010	**618,562**	**61%**	**-**	**-**	**223,125**	**22%**	***116,113***
2009	618,562	58%	-	-	198,000	19%	*177,546*
Mark Freeman: Chief Investment Officer[7]							
2010	**700,000**	**60%**	**-**	**-**	**341,425**	**29%**	***127,318***
2009	700,000	61%	-	-	339,920	30%	*127,318*
Andrew Porter: Chief Financial Officer							
2010	**520,000**	**75%**	**-**	**-**	**124,280**	**18%**	***40,861***
2009	520,000	81%	-	-	115,004	18%	-
Geoff Driver: General Manager Business Development and Investor Relations							
2010	**420,000**	**74%**	**-**	**-**	**92,500**	**16%**	***43,485***
2009	420,000	73%	-	-	84,036	14%	*57,695*
Simon Pordage: Company Secretary (Appointed 9 February 2009)							
2010	**225,000**	**88%**	**-**	**-**	**31,250**	**12%**	**-**
2009	90,783	72%	20,110	16%	14,462	12%	-

1. See table on pages 18 to 19 for details of the awards to which this relates. Shares received valued at closing price on the day that they were received.
2. Valued at closing price of AFI shares on the last possible vesting date.
3. Shares valued at closing price of AFI on 30 June 2010 (30 June 2009). Includes current year award at $ value as shares have yet to be purchased.
4. For 2010, the Long Term Award for Mark Freeman that is yet to vest is a set cash amount, rather than shares.
5. See page 20 for a breakdown of these amounts by Year of Award.
6. Note that this figure includes vesting from two awards – the March 2004 and October 2004 award.
7. For Mark Freeman, note that the short term incentive's KPIs are actually based on performance over one to 10 years rather than a single year.
8. This represents the value of shares at vesting awarded to Mark Freeman on commencement of employment which vested in accordance with that contract.
9. Note that this figure includes vesting from two awards – the March 2004 and April 2005 award.

Prior Years Long Term Incentive Received During Year[1] $	Percentage of Total	Dividends on Unvested ELTIP Shares $	Percentage of Total	Total Received During Year $	Long Term Incentive Forfeited During Year[2] $	Long Term Incentive Yet to Vest[3,4,5] $
148,454	15%	20,500	2%	1,010,641	(19,352)	533,261
220,509[6]	21%	26,891	2%	1,063,962	(23,168)	532,250
117,598[8]	10%	3,033	1%	1,162,056	-	280,000
92,865[8]	8%	7,933	1%	1,140,718	-	241,965
41,535	6%	7,616	1%	693,431	0	226,153
-	-	5,313	1%	640,317	N/A	197,604
44,202	9%	7,141	1%	563,843	0	188,311
72,626[9]	12%	8,612	1%	585,274	(6,391)	177,195
-	-	111	0%	256,361	N/A	22,190
-	-	-	-	125,355	N/A	6,056

Executive Remuneration – Incentive Payments

This section shows:

- The performance of executives and the investment team against the performance measures that underpin Short Term and Long Term Incentive Plans.
- Short term incentives paid and forfeited during the financial year 2010 for each KMP.
- Long term incentives vested and forfeited during the financial year 2010 for each KMP.
- Long term incentives that will vest, subject to achievement of performance hurdles, in future financial years for each KMP.

Executive Short Term Incentive

The table below shows AFIC's performance on metrics underpinning the Executive Short Term Incentive Plan.

Performance Measures	Benchmark Result	AFIC Result	Result
Total shareholder return (TSR)	13.1%	12.9%	Under-performance
Total portfolio return (TPR)	13.1%	15.6%	Out-performance
Growth in net operating profit per share	3.3%	-11.1%	Under-performance
Management expense ratio (compare to previous year)	0.19%	0.16%	Out-performance

The table below shows the short term incentive paid to executives as a result of AFIC's performance on financial metrics (see table above) and the other investment companies to which AICS provides services (see pages 34 to 35 for these results) and individuals' achievement of their own personal objectives, which can include advice to the Board, succession planning, management of staff, risk management, promotion of the corporate culture and satisfaction of key internal stakeholders. See page 23 for an explanation of the financial and non-financial performance conditions underpinning the Executive Short Term Incentive Plan.

Results (see table 1)

Executive	Percentage of Target Paid	$ Paid	Percentage of Target Forfeited	$ Forfeited
Ross Barker	74%	223,125	26%	76,875
Andrew Porter	76%	124,280	24%	39,054
Geoff Driver	75%	92,500	25%	31,500
Simon Pordage	78%	31,250	22%	8,750

Investment Team Short Term Incentive

The table below shows AFIC's performance on metrics underpinning the investment team Short Term Incentive Plan.

Measure		Benchmark Result	AFIC Result	Result
Investment return	– 1 year	13.1%	16.1%	Out-performance
Investment return	– 3 years	-7.9%	-4.2%	Out-performance
Investment return	– 5 years	4.5%	6.7%	Out-performance
Investment return	– 8 years	8.2%	9.5%	Out-performance
Gross return	– 1 year	14.6%	17.8%	Out-performance
Gross return	– 3 years	-6.5%	-3.5%	Out-performance
Gross return	– 5 years	5.9%	7.6%	Out-performance
Gross return	– 8 years	9.7%	10.8%	Out-performance
Gross return	– 10 years	8.3%	11.2%	Out-performance
Reward to risk	– 3 years	N/A	N/A	N/A
Reward to risk	– 5 years	Top quartile	13/77	Achieved
Reward to risk	– 8 years	Top quartile	6/39	Achieved
Reward to risk	– 10 years	Top quartile	3/28	Achieved

The reward to risk return was not applicable for the three year return as it cannot be calculated when the return is negative, and the period used was the year to March. See page 24 for an explanation regarding the measures used, including a description of the methodology.

The table below shows the short term incentive paid to Mark Freeman as a result of AFIC's performance on financial metrics (see table above) and the other investment companies to which AICS provides services (see pages 34 to 35 for these results) and individuals' achievement of their own personal objectives, which can include advice to the Board, succession planning, management of staff, risk management, promotion of the corporate culture and satisfaction of key internal stakeholders.

Results (see table 1)

Executive	Percentage of Target Paid	Target Paid $	Percentage of Target Forfeited	Target Forfeited $
Mark Freeman	98%	$341,425	2%	$8,575

Executive Long Term Incentive Plan (see table 1)

The table below shows the value of long term incentive awards that vested to or were forfeited by executives in the financial year 2010.

Award Date	Measure^	Benchmark Result	AFIC Result	Percentage Vested in 2010	Ross Barker $
October 2004*	TPR	7.6% (62.5th percentile) 8.7% (75th percentile)	8.3%	N/A	-
				N/A	-
March 2006#	TSR	3.1%	6.3%	50%	-
	TPR	4.8% (75th percentile)	5.5%	50%	-
				100%	-
October 2005	TSR	5.5%	11.1%	50%	74,227
	TPR	7.1% (75th percentile)	7.3%	50%	74,227
				100%	148,454
					$148,454

^ See section 1, Explanation of terms, for definitions.

* Part of this award vested in the prior year.

The shares that vested under this award vested at different times, hence the difference in vesting values.

The dollar amounts shown are the value of the shares vested at the date of vesting for shares that vested, at the last possible vesting date where forfeited, or at 30 June 2010 where they have yet to vest.

Geoff Driver $	Andrew Porter $	Percentage Forfeited	Ross Barker $	Geoff Driver $	Andrew Porter $	Percentage Still to Invest
-	-	12.5%	(19,352)	-	-	0%
-	-	12.5%	(19,352)	-	-	0%
23,087	21,692	0%	-	0	0	0%
21,115	19,843	0%	-	0	0	0%
44,202	41,535	0%	-	0	0	0%
-	-	0%	0	-	-	0%
-	-	0%	0	-	-	0%
-	-	0%	0	-	-	0%
$44,202	$41,535		($19,352)	$0	$0	

The table below shows the executive long term incentive awards that are subject to vesting.

Performance-Related Pay – Long Term

Award Date	Number of Shares Awarded	Value at Award Date	Value per Share at Award Date	Value at 30 June 2010 ($4.73 Per Share Outstanding)	*Value at 30 June 2009 ($4.37 Per Share Outstanding)*	Vesting Dates Subject to Performance Hurdles
Ross Barker: Managing Director						
3 October 2005	28,995	$116,113	$4.00	Vested	*$126,708*	October 2009 – October 2010
10 October 2006	26,186	$128,073	$4.89	$123,860	*$114,433*	October 2010 – October 2011
9 August 2007	22,509	$131,810	$5.86	$106,468	*$98,364*	August 2011 – August 2012
13 August 2008	21,452	$111,297	$5.19	$101,468	*$93,745*	August 2012 – August 2013
14 October 2009	19,007	$98,997	$5.21	$89,903	*$99,000**	October 2013 – October 2014
For year ended 30 June 2010	TBD	$111,562	N/A	$111,562*	-	August 2014 – August 2015
				$533,261	*$532,250*	
Simon Pordage: Company Secretary						
14 October 2009	1,388	$7,229	$5.21	$6,565	*$6,056**	October 2013 – October 2014
For year ended 30 June 2010	TBD	$15,625	N/A	$15,625*	-	August 2014 – August 2015
				$22,190	*$6,056*	
Geoff Driver: General Manager Business Development and Investor Relations						
8 March 2006	8,966	$43,485	$4.85	Vested	*$39,181*	March 2010 – March 2011
11 August 2006	5,275	$24,107	$4.57	$24,951	*$23,052*	August 2010 – August 2011
9 August 2007	8,177	$47,884	$5.86	$38,677	*$35,733*	August 2011 – August 2012
13 August 2008	8,515	$44,178	$5.19	$40,276	*$37,211*	August 2012 – August 2013
14 October 2009	8,067	$42,016	$5.21	$38,157	*$42,018**	October 2013 – October 2014
For year ended 30 June 2010	TBD	$46,250	N/A	$46,250*	-	August 2014 – August 2015
				$188,311	*$177,195*	
Andrew Porter: Chief Financial Officer						
8 March 2006	8,425	$40,861	$4.85	Vested	*$36,817*	March 2010 – March 2011
11 August 2006	4,832	$22,082	$4.57	$22,855	*$21,116*	August 2010 – August 2011
9 August 2007	7,883	$46,162	$5.86	$37,287	*$34,449*	August 2011 – August 2012
13 August 2008	10,920	$56,655	$5.19	$51,652	*$47,720*	August 2012 – August 2013
14 October 2009	11,040	$57,501	$5.21	$52,219	*$57,502**	October 2013 – October 2014
For year ended 30 June 2010	TBD	$62,140	N/A	$62,140*	-	August 2014 – August 2015
				$226,153	*$197,604*	

TBD: To Be Determined (dollar amount has been awarded but shares have yet to be purchased).

* Cash amount at 30 June 2010 (2009) as shares had not yet been purchased.

Investment Team Long Term Incentive Plan (see table 1)

No part of the investment team long term incentive was available for testing or vesting as the scheme runs over four years and was only introduced in 2009. However, table 1, page 14 shows the value of 23,333 AFIC shares that vested to Mark Freeman during the year as part of his initial employment contract. The 2010 vesting is shown at the value of AFIC shares on the day that they vested (total: $117,598 at $5.04), and the comparative period shows the 23,333 shares that vested in that year at the closing price on the day that they vested (total: $92,865 at $3.98).

The table following shows the investment team long term incentive award that is subject to vesting.

Award Date	Amount Awarded	Vesting Date Subject to Performance Hurdles
Mark Freeman: Chief Investment Officer		
9 July 2009	$140,000	30 June 2012
14 July 2010	$140,000	30 June 2013
	$280,000	

Note: The above incentive is shown as a cash amount only, as it will be paid either in cash or in an equivalent value of shares, at the discretion of the Remuneration Committee. See page 26 for details of the vesting hurdles.

Section 3. Additional Disclosure Required by Corporations Legislation

Remuneration Policy

AFIC is an investor in securities listed in Australia and New Zealand. For the Company to meet its objectives on behalf of its shareholders it is essential to have professional, competent and highly motivated executives and staff. This means that the Company must have attractive remuneration arrangements which are fair, reflect market conditions and recognise the roles, obligations and responsibilities of the respective individuals.

For executives involved in the day-to-day management of the Company and its investments this includes components of fixed remuneration and performance-based "at risk" remuneration which reflect both Company performance (including the performance of the other investment companies) and individual performance.

For Non-Executive Directors charged with the responsibility of oversight of the Company's activities on behalf of shareholders, a fixed annual fee is paid with no element of performance-related pay.

The Board has established a Remuneration Committee to advise it on the Company's remuneration policies, and for reviewing and recommending the remuneration arrangements of the Company's Executives. More details as to the Committee's membership and activities are set out at the end of this report.

The Managing Director, as approved by the Remuneration Committee, has appointed as external advisers Ernst & Young, who also provide accounting and taxation advice to the Group. Their role is to provide advice to ensure that the Company's remuneration policies and details are in accordance with the market conditions of the finance and securities industry within which the Company operates. They also provide advice directly to the Remuneration Committee with regards to the Managing Director's remuneration.

Ernst & Young were paid $42,000 during the year ended 30 June 2010 for remuneration advice including confirmation of vesting calculations (2009: $42,823) and during the year the Group also paid $122,489 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2009: $217,170) (all incl. GST).

In addition, Deloitte was appointed remuneration adviser to the Remuneration Committee directly by the Committee and report directly to the Remuneration Committee independent of Management. They have not received any fees during 2010 as their appointment was only made during the year. They will advise the Committee on the content and presentation of the Remuneration Report as well as providing independent advice as to the structure and content of the Company's remuneration schemes and outcomes.

Both Ernst & Young and Deloitte are remunerated on an invoiced basis based on work performed.

Remuneration of Non-Executive Directors

Shareholders approve the maximum aggregate amount of remuneration per year to be allocated between Non-Executive Directors as they see fit. In proposing the amount for consideration by shareholders, the Remuneration Committee takes into account the time demands made on Directors together with such factors as the general level of fees paid to Australian corporate Directors.

The amount approved at the AGM in October 2007 was $1,000,000 per annum, which is the maximum amount that may be paid in total to all Non-Executive Directors. As per the table below, the amount paid in the year ended 30 June 2010 was $533,244.

Retirement allowances for Directors were frozen at 30 June 2004. Following his retirement, SDM Wallis was paid his retirement allowance of $114,500 which was the amount accrued as at 30 June 2004.

Non-Executive Directors do not receive any performance based remuneration. On appointment, the Company enters into a deed of access and indemnity with each Non-Executive Director. There are no termination payments due at the cessation of office, and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

Remuneration of Executives

Remuneration for the Company's Executives is broadly comprised of two main elements:

(i) Fixed annual remuneration.

(ii) Performance-related pay.

All amounts paid as incentive payments may be paid in cash or shares, or any combination thereof, at the discretion of the Company.

The Board, through the Remuneration Committee, determines the amount of performance-related pay that an executive shall receive with regard to both individual and Company performance, including the impact of the Company's performance on shareholder's wealth, and reserves the right to set or to amend the amounts payable to any individual. The factors used in their consideration include the portfolio performance and take into account the dividends paid by the Company, the movement in the Company's share price and the impact of any capital adjustments. All of these measures are in one or more ways included in the quantitative measures discussed below.

Directors believe that the remuneration of executives is sufficiently adjusted to account for the risks that the Company and its shareholders face and how it responds to those risks. This rationale is based on the fact that:

- Executives agree to invest 50 per cent of the short term incentive they are paid in AFIC shares and hold these shares for two years.
- Vesting of long term incentives is dependent on achievement of performance hurdles that include both portfolio and share-price performance.
- The investment team's performance-related pay is based on portfolio returns between one and 10 years.

The Company provides no lending or leveraging arrangements to its executives, who are prohibited by Company policy from entering into hedging policies that mitigate the possibility that 'at-risk' incentive payments may not vest.

Fixed Annual Remuneration

The fixed annual remuneration for an executive (and for all staff) is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Company operates. External advice is sought to ensure that the fixed annual remuneration meets these conditions.

The fixed annual remuneration component of an executive's remuneration is comprised of their base salary, superannuation guarantee contributions ("SGC"), and fringe benefits. The dividends received from unvested Performance Shares held in the ELTIP (see below) during the Vesting Period are also taken into account when setting remuneration levels.

Executives may choose whether they take a proportion of their fixed annual remuneration in the form of a car lease, provision of a parking space, additional superannuation contributions etc. This does not affect the gross amount paid by the Group as remuneration.

There are no perquisites provided by the Company for executives as a result of their employment other than their remuneration.

Performance-Related Pay

The incentive component of pay for executives is intended to reflect:

- the performance of the Company and the other investment companies as reflected in a number of quantitative measures which, in the opinion of the Board, have an influence on shareholder wealth; and
- an individual's performance with respect to personal objectives having regard to their role in the Company and the other investment companies.

The level of performance-related pay that is set as a target is also set with reference to levels necessary to recruit and retain staff of the relevant calibre.

Short Term Incentive Plan

There are two Short Term Incentive Plans – one for the executives (excluding Mark Freeman) and one for the investment team. Each of these plans, including the measures and criteria used, are outlined below.

The Remuneration Committee sets the target amount of remuneration that could be paid should all performance hurdles 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, if performance hurdles are not achieved, incentives will not be paid.

The use of the performance measures described below is kept under review by the Remuneration Committee. The Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the short term performance incentive policies.

Executive Short Term Incentive Plan

Executives are paid a cash short term incentive on achievement of performance conditions. The recipients then use 50 per cent of their award (post-tax) to purchase AFIC shares, which they agree to hold, without trading, for two years. Because these shares are ordinary shares in the Company and the executives have purchased the shares themselves, dividends on them are paid to the executives prior to the expiry of the holding term. Should an executive leave the Group before the holding term expires, the restriction will be lifted.

The shares that form part of an executive's remuneration are purchased on-market so there is no dilution of the Company's share capital as a result. No options over the Company's stock or shares are issued by the Company as remuneration.

Performance Conditions

The amount of short term remuneration that is awarded to executives is based on a mixture of the performance of the investment companies and the performance of the executive in meeting their personal objectives as assessed by the Remuneration Committee. Also considered are the levels necessary to recruit and retain staff of the relevant calibre.

The Remuneration Committee exercises its discretion to determine at the time of the review what it considers to be the appropriate level of return to be used. Directors consider that the metrics used equate, over the medium to long term, with the stated objectives of the Company, namely "to provide attractive total returns and pay dividends, which, over time, grow faster than the rate of inflation".

The relevant weightings of the metrics for the performance of the investment companies used to determine the incentive payments awarded are as below:

Investment Team	
Australian Foundation Investment Company Limited	60%
Djerriwarrh Investments Limited	5%
AMCIL Limited	5%
Mirrabooka Investments Limited	5%
Personal objectives	25%

- Total shareholder return (TSR). This is the movement in share price plus the dividends reinvested, and reflects the movement in an individual shareholder's wealth over the year. This is measured against the S&P/ASX 200 Accumulation Index.
- Total portfolio return (TPR). This is the movement in the net asset backing of the Company (per share) plus the dividends reinvested, and reflects the movement in the value of the underlying portfolio over the year. This measure best reflects the ability of the Company to meet its stated aim of providing attractive total returns over the medium to long term. This is also measured against the S&P/ASX 200 Accumulation Index.
- Growth in net operating profit per share (under the old accounting standards, earnings per share). As the Company does not seek to pay out as dividends gains realised on its investment portfolio, with the exception of the amount paid out to meet the listed investment company gains ("LIC gains") part of the dividend, this measure best reflects the ability of the Company to meet its stated aim of "paying out dividends which, over time, grow faster than the rate of inflation". This is compared to the CPI.
- Management Expense Ratio ("MER"). This figure reflects the costs of running the Company and is compared to prior years.

Personal objectives and key performance indicators, such as advice to the Board, succession planning, management of staff, risk management, promotion of the corporate culture and satisfaction of key internal stakeholders are also considered by the Remuneration Committee as part of the incentive determination. Also assessed are the results of the other investment companies to which AICS provides services – see pages 34 to 35 for details of their performance.

Investment Team Short Term Incentive Plan

A percentage of the target amount of total performance-related pay is available to be paid under the Short Term Incentive Plan. The actual percentage varies between members of the investment team, depending on their role.

The amount of performance-based pay that the individual will receive under the investment team Short Term Incentive Plan is determined by the Remuneration Committee based on the measures outlined below. The use of these criteria is kept under review by the Remuneration Committee. The Committee reserves the right to revise the criteria and weightings in order to better meet the objectives of the incentive plan, and to change or suspend any part of the incentive payment arrangements.

Performance Conditions

Fifty (50) per cent of an investment team member's fixed annual remuneration is set as the target amount of short term incentive to be paid. The investment company performance metrics that are used are as below. The results of each quantitative measure for each of the investment companies can be found on pages 34 to 35. The relevant weightings for the Companies are reflected in the amount that AICS charges them for the provision of investment and research services. At the discretion of the Remuneration Committee, this may be paid in either cash or shares or a combination of both.

Investment Team	
Australian Foundation Investment Company Limited	60%
Djerriwarrh Investments Limited	18%
AMCIL Limited	4%
Mirrabooka Investments Limited	8%
Personal objectives	10%

Quantitative

Investment Return. This measure is the return on the portfolio invested (including cash) over a backward-looking one, three, five and eight year period, and reflects the returns generated by the mix of the investments that the Company has invested in. This return is also compared to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).

Gross Return. This measure is the movement in the net asset backing of the Company (per share) plus the dividends reinvested grossed up for franking credits over a backward-looking period of one, three, five, eight and 10 years, and reflects the movement in the value of the underlying portfolio over the period. This measure reflects the ability of the Company to meet its stated aim of providing attractive total returns over the medium to long term. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).

Reward to Risk (Risk/Reward). This is a backward-looking measure over three, five, eight and 10 years of the performance of the Company that best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected, calculated by using the movement in the net asset backing of the Company (per share) plus the dividends reinvested divided by the standard deviation of the movement in the net asset backing of the Company (per share) plus the dividends reinvested over the same period. This is compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer. (Note: this measure is used for AFIC's performance only, reflecting that Company's focus on producing stable returns over the medium to long term).

Income Generation. This is relevant for measuring Djerriwarrh's operating earnings as a percentage of the average investable assets. It is a one year measure only, and measures the ability of the investment team to generate returns from the assets of the Company (Djerriwarrh only, reflecting that Company's focus on enhancing income). It is compared to the return generated in prior years.

Qualitative

Investment Process. The Remuneration Committee assesses the performance of the investment team in identifying quality stocks, diversifying the portfolio and developing a 'nursery' of smaller, potential growth stocks.

Long Term Incentive Plan

Executive Long Term Incentive Plan (ELTIP)

The Executive Short Term Incentive Plan acts as a gateway to the ELTIP as an executive's performance in the short term plan determines the amount of shares they will be awarded under the ELTIP. The value of shares awarded to an executive is equivalent to 50 per cent of the gross amount awarded to the individual under the Short Term Incentive Plan. The maximum amount that may vest from an award made under the ELTIP is dependent on the value of the shares at the time of vesting – the summary on page 20 shows the value of these shares at 30 June 2010, should they all vest. The minimum amount that may vest should the targets not be achieved is nil.

The performance shares vest between four and five years after grant date, entirely dependent on the achievement of set quantitative measures, described below.

Because the Performance Shares are ordinary shares in the Company, dividends are paid to the executives on the Performance Shares that are held by them prior to vesting. However the dividends are taken into account when setting the Executive's Annual Fixed Remuneration.

Shares awarded as part of this plan are purchased on-market.

There is no holding lock on shares that vest under the ELTIP. Should an employee cease employment at any time prior to the vesting of shares then all shares unvested will be cancelled. A charge will be made through the Income Statement for any amount still outstanding on those shares.

Performance Conditions

The performance conditions that determine vesting of the performance shares are total shareholder return ("TSR") and total portfolio return ("TPR"). These measures 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). Fifty (50) per cent of the shares vest under TSR, and 50 per cent of the shares vest under TPR. Any performance shares that do not vest are transferred back to the Company by the executive for no consideration and are cancelled.

The vesting hurdles are as noted below:

(i) Total Shareholder Return (TSR)

The TSR hurdle will require the Company to outperform the relevant index, (the S&P/ASX 200 Accumulation Index (the Accumulation Index) being in the Directors' view the most appropriate approximation for the market for the companies in which AFIC invests) by the percentages set out in the table below. The percentage of the Performance Shares that vest will depend on the level of out-performance.

Company TSR Performance	Percentage of Performance Shares Vesting
Under-performance relative to Accumulation Index	0%
< 10% out-performance relative to Accumulation Index	25%
10% to 20% out-performance relative to Accumulation Index	37.5%
> 20% out-performance relative to Accumulation Index	50%

(ii) Total Portfolio Return (TPR)

The TPR performance hurdle will require the Company's management of its portfolio to outperform the median performance of comparable retail fund managers. For this purpose, the Mercer Investment Consulting Survey of Australian Retail Fund Managers is used which provides the industry benchmark of funds management performance over the relevant 48 to 60 month period. The percentage of the performance shares vesting will depend on the level of out-performance as set out in the table below.

Company TSR Performance	Percentage of Performance Shares Vesting
Less than median performance	0%
Median to < 62.5th percentile performance	25%
62.5th percentile to < 75th percentile performance	37.5%
> 75th percentile performance	50%

The results of the performance measures are shown below on page 34.

Investment Team Long Term Incentive Plan

The minimum amount of bonus for any financial year is nil, in the event that performance hurdles are not achieved. The maximum amount on vesting is dependent upon the share price of the shares awarded at the time of vesting, should shares be awarded.

Performance Conditions

20 per cent of an investment team member's fixed annual remuneration is set as the target amount of long term incentive to be paid in respect of a particular year. A percentage of this target amount of total performance-related pay will vest four years after the award, depending on the gross return. This measure best reflects the ability of the Company to meet its stated aim of providing "attractive total returns over the medium to long term". The amount that will vest will be paid in cash or shares, at the discretion of the Company. The assessment period will be for four years, with no retesting.

The vesting hurdles for the amounts awarded under the long term incentive are as follows:

Gross Return (GR)

The GR performance hurdle will require the management of investment portfolios to outperform the most appropriate indices based on the investment objectives of each company.

Sixty (60) per cent of the award is based on the performance of AFIC (against the S&P/ASX 200 Accumulation Index, grossed up for franking credits), 25 per cent based on the performance of Djerriwarrh (against the S&P/ASX 200 Leaders Accumulation Index grossed up for franking credits), 10 per cent based on the performance of Mirrabooka (against the combined S&P/ASX Mid Cap 50 Accumulation Index and the Small Ordinaries Accumulation Index grossed up for franking credits) and 5 per cent based on the performance of AMCIL (against the S&P/ASX 200 Accumulation Index grossed up for franking credits).

The percentage of the amount vesting will depend on the level of out-performance as set out in the table below.

Company Gross Return Performance	Percentage Vesting
<90% performance relative to relevant Accumulation Index	0%
90-99.9% performance relative to the relevant Index (absolute)	Board discretion
> 100% up to 110% performance relative to relevant Accumulation Index	Straight line between 50% and 100%
> 110% up to 120% performance relative to relevant Accumulation Index	Straight line between 100% and 150%
120%+ performance relative to relevant Accumulation Index	150%

As this plan was instituted for the year ended 30 June 2009, no testing has yet been done.

The results of the performance measures are shown below on page 34.

Contracts

Each executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There is no provision for cessation of employment. Either the Company or the executive can give notice in accordance with statutory requirements (typically four weeks notice, but this can be altered at the Board's discretion, but in no case to be more than 12 months). There are no specific payments to be made as a consequence of termination beyond those required by statute.

Breaches of the terms of employment will normally result in the termination of an executive's employment.

Remuneration Committee

The Board of Directors has established a Remuneration Committee to advise the Board on remuneration and related issues. The Committee's primary responsibilities include:

- reviewing the level of fees for Non-Executive Directors and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance; and
- reviewing the remuneration arrangements for other Senior Executives.

Advisers

The Committee approved the appointment of an independent consultant, Ernst & Young, to advise them and Management on Executive and Non-Executive remuneration matters during the year and also directly appointed Deloitte to provide independent advice to the Committee on the appropriateness of the Company's remuneration policies and outcomes.

Composition

The Remuneration Committee is composed of four Non-Executive Directors. (Currently Mr DR Argus (Chairman), Messrs J Paterson and BB Teele and Mrs CM Walter).

Frequency of Meetings

The Committee meets at least twice a year.

Key Activities

The key activities of the Remuneration Committee cover the following matters:

1. Directors' Fees – Review of external information regarding the appropriate level of Directors' fees and remuneration for the Chairman and Committee members with a view to advising the Board on the appropriate level of Directors' fees in order to continue to retain and attract high calibre Directors with the skills and experience required for the Company.
2. Review of the Managing Director's Remuneration Arrangements – This includes establishing details of the base package remuneration arrangements and components of short term and long term incentives. It also includes the establishment each year of short term objectives for the Managing Director and establishment of appropriate hurdles for long term incentives and monitoring performance.
3. Evaluating the Managing Director's Performance – The Committee undertakes a review of the Managing Director's performance against set objectives and reports to the Board an assessment of the Managing Director's performance and a recommendation for incentive payments and other components of remuneration based on their assessment.
4. Review of Remuneration Arrangements for Other Executives – The Remuneration Committee is involved in approving remuneration policies for other executives of the Company, including the establishment of short term and long term incentives and approving levels of incentive payments in recognition of their performance against agreed targets and plans.

The Remuneration Committee will continue to monitor legislative developments with regard to executive remuneration including the Productivity Commission's Report on 'executive remuneration in Australia' and will ensure that the Group continues to comply with all requirements in this area and endeavour to meet 'best practice' in all appropriate areas.

The use of the various criteria to determine remuneration is kept under review by the Remuneration Committee. The Committee reserves the right to revise any criteria and/or weightings in order to better meet the objectives of the incentive plan, and to change or suspend any part of the incentive payment arrangements.

Remuneration Outcomes – Additional Statutory Disclosure for Financial Year 2010

Non-Executive Directors

The amounts paid to each Non-Executive Director, and the figures for the corresponding period, are set out below:

	Primary (Fee/Base Salary) $	Post-Employment (Superannuation) $	Total Remuneration $
BB Teele: Chairman			
2010	132,110	11,890	144,000
2009	132,110	11,890	144,000
TA Campbell: Non-Executive Director/Deputy Chairman			
2010	66,055	5,945	72,000
2009	66,055	5,945	72,000
DR Argus: Non-Executive Director			
2010	66,055	5,945	72,000
2009	66,055	5,945	72,000
J Paterson: Non-Executive Director			
2010	66,055	5,945	72,000
2009	66,055	5,945	72,000
FD Ryan: Non-Executive Director			
2010	40,622	31,378	72,000
2009	66,055	5,945	72,000
SDM Wallis: Non-Executive Director (retired 22 June 2009)			
2010	-	-	-
2009	64,422	5,798	70,220
CM Walter: Non-Executive Director			
2010	66,055	5,945	72,000
2009	66,055	5,945	72,000
PJ Williams: Non-Executive Director (appointed 3 February 2010)			
2010	26,829	2,415	29,244
2009	-	-	-
Total Remuneration: Non-Executive Directors			
2010	463,781	69,463	533,244
2009	526,807	47,413	574,220

The amounts payable to the respective current Non-Executive Directors who were in office at 30 June 2004, which will be paid when they retire, are set out below. These amounts were expensed in prior years as the retirement allowances accrued. It is not expected that any of these Directors will retire within the next 12 months.

	Amount Payable on Retirement $
BB Teele	229,000
DR Argus	114,500
TA Campbell	114,500
FD Ryan	66,329
CM Walter	42,385
	566,714

Executives

The table following shows the disclosure of the remuneration outcomes for Executives as required by law and the relevant Accounting Standards. The main difference between this and the table on pages 14 and 15 is:

The table following includes the amount expensed for long term incentive during the year, regardless of vesting. Long term share-based awards are expensed over four years from the date of purchase (for executives) and for three years for Mark Freeman. The investment team cash-based long term award is expensed over four years.

Table 2: Remuneration Accounting Disclosures

	Base Salary $	Non Cash Benefits $	Other Benefits[1] $	Post Employment Superannuation $	Total Fixed Annual Remuneration $	Short Term Cash Short Term Cash Incentive $
Ross Barker: Managing Director						
2010	**560,200**	**8,500**	**14,862**	**35,000**	**618,562**	**111,563**
2009	511,200	8,500	14,862	84,000	618,562	99,000
Mark Freeman: Chief Investment Officer						
2010	**675,000**	**-**	**-**	**25,000**	**700,000**	**341,425**
2009	650,000	-	-	50,000	700,000	339,920
Andrew Porter: Chief Financial Officer						
2010	**495,000**	**-**	**-**	**25,000**	**520,000**	**62,140**
2009	470,000	-	-	50,000	520,000	57,502
Geoff Driver: General Manager Business Development and Investor Relations						
2010	**395,000**	**-**	**-**	**25,000**	**420,000**	**46,250**
2009	380,000	-	-	40,000	420,000	42,018
Simon Pordage: Company Secretary (appointed 9 February 2009)						
2010	**189,280**	**21,258**	**-**	**14,462**	**225,000**	**15,625**
2009	75,207	7,509	20,110	8,157	110,983	7,231
Sue Crook: Company Secretary and General Counsel (Resigned 31 December 2008)						
2010	**-**	**-**	**-**	**-**	**-**	**-**
2009	121,061	-	-	4,793	125,854	-

Note: All of the short term incentives shown in respect of services performed for the year ended 30 June 2009 were paid in the year ending 30 June 2010 and, for the year ending 30 June 2010, will be paid in the year ending 30 June 2011.

The only major difference between this table and table 1 is in the treatment of the long term incentive – table 1 shows what was received whilst this table shows the accounting cost for the year.

Share Based – Equity Settled		Long Term					
Short Term Incentive[2] $	Long Term Incentive Expensed $	Long Term Incentive (Cash Based) – Expensed $	Total Remuneration $	Percentage of Performance Related $	Percentage Fixed $	Percentage Share-Based[3] $	Dividends on ELTIP Shares Unvested[4] $
111,562	118,611	-	960,298	36%	64%	24%	20,500
99,000	125,732	-	942,294	34%	66%	24%	26,891
-	74,269[5]	70,000	1,185,694	41%	59%	6%	3,033
-	127,318[5]	35,000	1,202,238	42%	58%	11%	7,933
62,140	48,816	-	693,096	25%	75%	16%	7,616
57,502	40,260	-	675,264	23%	77%	14%	5,313
46,250	44,168	-	556,668	25%	75%	16%	7,141
42,018	45,139	-	549,175	24%	76%	16%	8,612
15,625	1,355	-	257,605	13%	87%	7%	111
7,231	-	-	125,445	12%	88%	6%	-
-	-	-	-	-	-	-	-
-	-	-	125,854	0%	100%	0%	1,172

1. For Ross Barker, represents superannuation payments made by the other investment companies for which he is Managing Director. These are taken into account when determining Mr Barker's fixed annual remuneration. For Simon Pordage, represents payments made on commencement of his employment in respect of amounts foregone from his previous employment.
2. For Short Term Share-Based Equity Settled incentive, the after tax amount of the award will be used to purchase the Company's shares on-market. Executives will voluntarily hold shares for two years before sale.
3. Includes value of short-term share award plus accounting charge for ELTIP and Mark Freeman's initial share award (see Note 16 in the financial statements).
4. This represents dividends received on ELTIP shares that have not vested or been cancelled as per the ELTIP (or the Company shares purchased for the CIO as part of his commencement arrangements). They are recognised as distributions for accounting purposes.
5. This amount represents the expense over three years of 70,000 AFIC shares purchased for Mark Freeman as part of his commencement arrangements. They vest in three equal parts on the anniversary of his commencement, subject to his remaining employed by the Group. Should he have left before they fully vested, the unvested portion would have been purchased back by the Company for no cost and cancelled. They have now fully vested.

Long Term Incentive – Vested and Awarded

The table below shows the amounts of long term incentive that vested during the year relating to prior years' awards. Assessment periods run from the last day of the month of the award to the last day of the month for each assessment date – there are therefore 13 possible assessment dates for each award. The minimum assessment period is four years and the maximum is five years.

Performance-Related Pay – Long Term

Award Date	Number of Shares Awarded	Value at Award Date	Assessment Dates	Shares Vested During the Year	Percentage Forfeited	Shares Vested in Prior Years	Shares Still Subject to Vesting
Ross Barker: Managing Director							
18 October 2004	29,485	$99,679	October 2008 – October 2009	0	12.5%	25,799	0
14 October 2005	28,995	$116,113	October 2009 – October 2010	28,995	0%	0	0
Geoff Driver: General Manager Business Development and Investor Relations							
8 March 2006	8,966	$43,485	March 2010 – March 2011	8,966	0%	0	0
Andrew Porter: Chief Financial Officer							
8 March 2006	8,425	$40,861	March 2010 – March 2011	8,425	0%	0	0

No other executives were eligible for the vesting of long term incentive during the financial year.

Of the shares awarded in October 2004 that were still eligible for vesting in the year ending 30 June 2010, none vested as the relevant targets were not met, and therefore 12.5 per cent were forfeited due to vesting conditions not having been met. The value of the shares when they were forfeited was $19,352.

Of the shares awarded in October 2005, 100 per cent of the total award vested. 50 per cent of the total award vested as at the end of October 2009 as the TSR was 11.1 per cent compared to the hurdle of 5.5 per cent. 50 per cent vested as the TPR for the relevant period to the end of October 2009 was 7.3 per cent which was above the 75th percentile of the comparative (75th percentile return was 7.1 per cent).

Of the shares awarded in March 2006, 100 per cent of the total award vested. 50 per cent of the total award vested as at the end of March 2010 as the TSR was 6.3 per cent compared to the hurdle of 3.1 per cent. 50 per cent vested as the TPR for the relevant period to the end of March 2010 was 5.5 per cent which was above the 75th percentile of the comparative (75th percentile return was 4.8 per cent).

All calculations used in determining the vesting of awards are reviewed and certified by Ernst & Young as being correct and in accordance with the terms and conditions of the Long Term Incentive Plans.

The Link Between the Remuneration Policy and Company Performance

The table below shows AFIC's (and the other investment companies) performance over the past five years, including details of total shareholder return, total portfolio return and gross return. These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's Long Term Incentive Plans to executives and investment teams.

Year Ending 30 June	10 Year Return^	8 Year Return	5 Year Return	4 Year Return
Comparative Returns				
S&P/ASX 200 Accumulation Return	6.9%	8.2%	4.5%	0.2%
Gross S&P/ASX 200 Accumulation Return	8.3%	9.7%	5.9%	1.6%
Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for MIR)	8.2%	9.0%	2.7%	-2.6%
Gross Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for MIR)	9.1%	10.0%	3.6%	-1.7%
Australian Foundation Investment Company Limited				
Total shareholder return	11.4%	9.6%	9.0%	4.5%
Total portfolio return	9.3%	8.9%	5.8%	2.4%
Growth in net operating profit per share	N/A	5.8%	0.9%	-1.7%
Management expense ratio	N/A	N/A	N/A	N/A
Risk/reward return#	3rd/28	6th/39	13th/77	12th/92
Gross return	11.2%	10.8%	7.6%	4.2%
Investment return	N/A	9.5%	6.7%	3.3%
Djerriwarrh Investments Limited				
Total shareholder return	7.8%	7.5%	6.7%	2.3%
Total portfolio return	6.6%	7.5%	4.4%	0.8%
Growth in net operating profit per share	N/A	0.4%	-1.3%	-3.6%
Management expense ratio	N/A	N/A	N/A	N/A
Gross return	9.4%	10.2%	7.0%	3.3%
Investment return	N/A	8.4%	5.8%	2.6%
Operating earnings as a percentage of available investable assets	N/A	N/A	N/A	N/A
Mirrabooka Investments Limited				
Total shareholder return	N/A	11.8%	6.5%	2.0%
Total portfolio return	9.6%	10.6%	4.9%	2.2%
Growth in net operating profit per share	N/A	6.4%	-1.5%	-4.4%
Management expense ratio	N/A	N/A	N/A	N/A
Gross return	11.5%	12.5%	7.0%	4.3%
Investment return	N/A	13.7%	8.4%	5.5%
AMCIL Limited				
Total shareholder return	N/A	N/A	10.4%	6.0%
Total portfolio return	N/A	N/A	13.3%	7.4%
Growth in net operating profit per share	N/A	N/A	7.1%	6.9%
Management expense ratio	N/A	N/A	N/A	N/A
Gross return	N/A	N/A	15.2%	9.4%
Investment return	N/A	N/A	14.8%	9.0%

* N/A as returns were negative for 2008 and 2009 and for some quartiles in 2010.

^ Only used for gross returns and risk/reward returns.

This represents the Company's ranking in the Mercer IDPS Australian Share Universe – i.e. 10th out of 71 funds. The period used is Year to March.

3 Year Return	2010	2009	2008	2007	2006
-7.9%	13.1%	-20.1%	-13.4%	28.7%	23.9%
-6.5%	14.6%	-18.8%	-12.2%	30.1%	25.5%
-13.4%	11.5%	-27.8%	-19.3%	38.9%	26.4%
-12.6%	12.4%	-27.1%	-18.6%	40.0%	27.5%
-1.7%	12.9%	-8.9%	-7.6%	25.3%	29.4%
-5.3%	15.6%	-16.9%	-11.5%	29.3%	20.5%
-9.4%	-11.1%	-3.3%	-10.3%	22.0%	12.3%
N/A	0.16%	0.19%	0.14%	0.13%	0.12%
N/A	N/A*	N/A*	N/A*	8th/144	61st/135
-3.5%	17.8%	-15.2%	-10.0%	30.9%	22.2%
-4.2%	16.1%	-15.9%	-9.9%	29.7%	21.1%
-1.7%	10.4%	-4.9%	-9.6%	15.0%	26.2%
-6.8%	11.9%	-15.9%	-13.9%	27.0%	20.6%
-10.7%	-22.8%	19.8%	-20.2%	17.1%	4.8%
N/A	0.36%	0.36%	0.26%	0.22%	0.24%
-4.1%	15.2%	-13.3%	-11.7%	29.4%	23.1%
-4.1%	13.7%	-12.6%	-10.9%	24.9%	19.6%
N/A	7.9%	11.2%	6.7%	8.6%	8.2%
-6.5%	22.4%	-15.7%	-20.8%	32.6%	26.5%
-8.7%	23.0%	-19.4%	-23.3%	43.6%	16.4%
-17.6%	-22.4%	-2.6%	-18.7%	35.9%	12.2%
N/A	0.93%	0.81%	0.79%	0.91%	0.87%
-6.6%	25.9%	-17.2%	-21.7%	45.2%	18.1%
-5.6%	24.0%	-17.0%	-18.1%	47.2%	20.6%
-1.3%	18.5%	-15.7%	-3.8%	31.3%	30.1%
-0.9%	19.8%	-9.4%	-10.4%	36.5%	40.4%
-7.8%	21.3%	16.8%	-43.6%	63.2%	8.1%
N/A	0.88%	1.14%	0.89%	0.92%	1.28%
1.3%	21.2%	-7.6%	-7.3%	37.8%	41.9%
0.7%	22.6%	-7.9%	-9.5%	37.9%	41.3%

NON-AUDIT SERVICES

Details of non-audit services performed by the auditors may be found in Note 29 of the Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Corporations Act 2001 including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the Auditor's Independence Declaration is set out on page 37.

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

Bruce B Teele
Chairman

Melbourne
26 July 2010

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Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

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

David Coogan
Partner
PricewaterhouseCoopers

Melbourne
26 July 2010

Liability limited by a scheme approved under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

The Board of the Company is committed to having the highest standards of ethical behaviour and an effective system of corporate governance for the Group, that is, the Company and its subsidiary Australian Investment Company Services Limited ("AICS"), commensurate with the size of the Company and the scope of its business operations.

In accordance with ASX Listing Rule 4.10.3, set out below is the ASX Corporate Governance Council's eight principles of corporate governance (ASX Governance Principles) and outlined accordingly is how the Board has applied each principle and the recommendations set out within them.

The Company is fully supportive of the 'if not, why not' disclosure based approach to governance adopted by the ASX Governance Principles and the recognition within them that there is no single model of corporate governance and that good corporate governance practice is not restricted to adopting the recommendations contained in the ASX Governance Principles.

There are a small number of recommendations made in the ASX Governance Principles that the Board, following careful consideration, has not adopted. Full details of these, together with an explanation of why an alternate and more appropriate approach has been taken by the Board, are set out in the following statement.

In addition to having its shares listed on the Australian Securities Exchange (ASX), the Company also has shares listed on the New Zealand Stock Exchange (NZX). As an overseas listed issuer on the NZX, the Company is deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

The ASX Governance Principles differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at www.asx.com.au and, in respect of the NZX, at www.nzx.com

Principle 1: Laying Solid Foundations for Management and Oversight

Compliance with this Principle requires the Company to establish and disclose the respective roles and responsibilities of both the Board and Management.

Role of the Board

The Company's Corporate Objective, as determined by the Board, is to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital.

In this regard, the Company's primary goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

The role of the Board underpins and supports the Corporate Objective of the Company. The Board generally sets objectives and goals for the operation of the Company, oversees the Company's management, regularly reviews the Company's performance and monitors its affairs in the best interests of the Company. For these responsibilities, the Board is accountable to its shareholders as owners of the Company.

The Board operates under a Board charter, available on the Company's website, which documents the role of the Board outlined above and the matters that the Board has reserved to itself. Those matters include:

- setting the Corporate Objective of the Company and approving business strategies and plans of the Company designed to meet that Objective;
- approving the expense budget at least annually;
- approving changes to the Company's capital structure and dividend policy;
- appointing and removing the CEO/Managing Director and carrying out succession planning for the CEO/Managing Director as applicable;
- reviewing the performance of the CEO/Managing Director, his/her remuneration and contractual arrangements;
- appointing and removing Senior Executives on the recommendation of the CEO/Managing Director;

- reviewing the performance and remuneration of Senior Executives on the review and recommendation of the CEO/Managing Director;
- reviewing the composition of the Board and Board Committees, the independence of Directors, the Board's performance and for carrying out succession planning for the Chairman and other Non-Executive Directors;
- reviewing the performance of management and the Company, including in relation to the risk management, internal controls and compliance systems adopted by the Company and the monitoring and review of the performance of AICS in relation to the services that AICS provides the Company;
- dealing with any matters in excess of any specific delegations that the Board may from time to time delegate to the CEO/Managing Director and Senior Executives;
- approving the communication to shareholders and to the public of the half-year and full-year results and generally any public statements which reflect issues of the Company's policy or strategy that the Board deems material;
- setting designated authorities for the investment team to implement (in consultation with the Chairman/Managing Director) the decisions of the Investment Committee in buying/selling options or securities; and
- determining any investment policies/processes and underlying investment philosophies. In making such determinations, the Board recognises the importance of sustainability, including environmental, social and governance issues, to long term investment success.

The Directors meet formally as a Board normally monthly with an annual strategy session. The Non-Executive Directors meet regularly in the absence of the Managing Director and other Senior Executives.

Delegation to Board Committees

The Board has established the following principal Board Committees to assist the Board in exercising its authority:

- Investment Committee;
- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Each Board Committee operates under a formal charter that is made publicly available on the Company's website. The role and work of the Nomination Committee is outlined under Principle 2 on page 40; Audit Committee is outlined under Principle 4 on page 43 and Principle 7 on page 44; and Remuneration Committee is outlined below under this Principle and under Principle 8 on page 46.

The number of Board and Board Committee meetings held during the year and attendance by Directors are set out on page 8.

Investment Committee

The general role of the Investment Committee, whose membership currently comprises each of the Directors, is to make investment decisions to support the Company's Corporate Objective. In doing this, the Committee:

- makes investment decisions to maintain the investment and trading portfolios;
- makes decisions in relation to other portfolio related activities including voting instructions and lodgement of proxies in respect of general meetings of companies in which the Company has invested;
- receives reports from management on portfolio matters, including portfolio performance, transaction reports, portfolio position reports and performance attribution analysis; and
- receives reports and recommendations in relation to the review and analysis of companies/securities in which the Company is able to invest in, or has invested in.

Further details of the role of the Investment Committee in respect of the oversight of investment risk can be found under Principle 7 on page 44.

Delegation to Management

The Company has entered into an agreement with Australian Investment Company Services Limited (AICS) for AICS to provide on a non-exclusive basis a comprehensive range of management and operational services to the Company under the leadership of the Managing Director of AICS, who has been appointed Managing Director of the Company, including the day-to-day maintenance of the portfolios and associated research. AICS is 25 per cent owned by Djerriwarrh Investments Ltd and 75 per cent owned by the Company.

The Managing Director is responsible to the Company for the performance of those services and the Board acts in close consultation and cooperation with AICS in relation to the provision of services by AICS to the Company. AICS is paid a fee based on its costs in providing these services. The Senior Executives of AICS have also been appointed as officers of the Company and their details are set out on page 8.

The Remuneration Committee (see page 46), is responsible to the Board for evaluating the performance of the Managing Director and the Company's Senior Executives in accordance with the Company's aims and objectives, and remunerating them appropriately. As part of its approach to encouraging enhanced performance, the Board has adopted a remuneration structure for the Managing Director and other Senior Executives which includes a significant component of 'at risk' remuneration designed to encourage and reward high performance. Full details of the remuneration process and the benchmarks used for assessment are given in the Remuneration Report on pages 10 to 35. Such an assessment was carried out in respect of the Managing Director's and Senior Executives' performance for the 2009-10 financial year.

The Board believes that the Company is fully compliant with Principle 1 and its recommendations.

Principle 2: Structuring the Board to Add Value

Compliance with this Principle requires the Company to have a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Directors' Report on page 7 sets out the details of the skills, experience, and expertise of each Director.

The roles of the Chairman and Managing Director are separate. The role of the Managing Director is set out under Principle 1, above. The role of the Chairman is set out in the Board charter, including being responsible for:

- the business of the Board, taking into account the issues and the concerns of all Directors and the requirements of the Board charter;
- the leadership and conduct of Board and Company meetings to be in accordance with the agreed agenda, the Company's Corporate Objective and Principles of Conduct (described under Principle 3, below); and
- encouraging active engagement by Directors and an open and constructive relationship between the Board and the Managing Director and Senior Executives.

The Chairman also has the authority to act and speak for the Board between meetings, subject to any agreed consultation processes.

Over its long history, the Company's four Chairmen have all been Senior Partner/Chief Executive of the stock-broking firm JBWere & Son and their considerable securities industry expertise has been a significant feature in the leadership and success of the Company.

The Board also has a Deputy Chairman, Mr TA Campbell, who deputises for and supports the Chairman in respect of the authorities and responsibilities conferred or delegated to the Chairman by the Board.

Appointment and Renewal

The Board consists of a Non-Executive Chairman, Mr BB Teele, a Non-Executive Deputy Chairman, Mr TA Campbell, a Managing Director, Mr RE Barker and five Non-Executive Directors, DR Argus, J Paterson, FD Ryan, CM Walter and PJ Williams, who are considered by the Board to be independent (see below).

Details of the term of office held by each Director in office as at the date of this report are as follows:

BB Teele	– 44 years
DR Argus	– 11 years
RE Barker	– 8 years and Alternate Director 1987 to 2001
TA Campbell	– 25 years
J Paterson	– 5 years and Alternate Director 1987 to 2005
FD Ryan	– 8 years
CM Walter	– 7 years
PJ Williams	– appointed February 2010

Being a long term investor is an essential part of the Company's Corporate Objective and continuity on the Board is regarded as an important factor in the Board's approach.

The Company's constitution provides that each Non-Executive Director must seek re-election by shareholders at least every three years if they wish to remain a Director. Any new Non-Executive Director appointed by the Board must seek election by shareholders at the next Annual General Meeting of the Company. This approach is consistent with the ASX Listing Rules.

All of the Directors have entered into an Agreement with the Company covering the terms of their appointment, access to documents, Director's indemnity against liability, and Directors' and Officers' insurance.

Each Director of the Company is encouraged to have a financial interest in the Company. All Directors are required to have a meaningful shareholding in the Company of at least one year's Director's fees. If not, 25 per cent of a Director's fees are to be applied each year until that level is reached. In this way Directors benefit in the same way as all shareholders in improving the shareholder value of the Company.

Nomination Committee

The Nomination Committee comprises J Paterson (Chairman), F Ryan and BB Teele. The majority of the Committee members are independent Directors including the Chairman of the Committee.

The Nomination Committee's Charter sets out the role of the Committee and its responsibilities, composition and membership requirements. The Nomination Committee periodically reviews Board and Board Committee composition, succession planning, and where applicable recommends suitable Directors for approval by both the Directors and shareholders. In reviewing Board composition, the Committee takes note of regulatory requirements and recommendations in this area and reviews the mix of skills, experience and diversity the Committee considers appropriate for the Company's particular circumstances.

The Committee also reviews the process in place to assess the Board's performance. In order to provide a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal Director review process. He meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, the Committees of the Board, individual Directors and the Chairman with the intention of providing mutual feedback.

Performance is reviewed against both measurable and qualitative indicators. To assist the effectiveness of these meetings, the Chairman is provided with objective information about each Director (e.g. number of meetings attended, Committee memberships, other current directorships etc.) and a guide for discussion to ensure consistency. The Chairman reports on the general outcome of these meetings to the Nomination Committee. Given the nature of the Company's activities, the Board believes that there is sufficient formality in the process of evaluation of the Board, its committees, individual Directors and the Chairman. Assessments under this process were carried out during the year.

Independence of Directors

The Nomination Committee reviews the independence of each of the Non-Executive Directors on an annual basis, taking into account the factors set out in the ASX Governance Principles, including situations where an individual Director may be a partner in, controlling shareholder of, or executive of an entity which has a material commercial relationship with the Company. In looking at such relationships, the Nomination Committee has set an initial materiality threshold of $1 million and this threshold is reviewed annually by the Committee.

It is considered that all Non-Executive Directors are independent except BB Teele and TA Campbell for the reasons set out below.

BB Teele, the Chairman, has been a Director of the Company for 44 years and has a continuing close involvement in the management of the portfolio. Accordingly, he is not considered to be an independent Director. Given that the Company is a listed investment company and Is a long term investor, it is valuable to have a Chairman with a depth of experience and skills in the securities industry who is actively involved in the investment decisions. Given the specialist nature of the Company's activities, an independent Chairman is not regarded as necessary.

TA Campbell, the Deputy Chairman, is currently not considered to be an independent Director because of his involvement as Senior Chairman of Goldman Sachs & Partners Australia Pty Ltd (formerly Goldman Sachs JBWere), with whom the Company has had a long relationship over its life and he is also a former Chairman and Chief Executive of Goldman Sachs JBWere.

A number of these Directors are also Directors of companies in which the Company invests. Any real or potential conflicts of interest are dealt with by procedures consistent with Corporations Act requirements which are designed to ensure that conflicted Directors do not take part in the decision-making on the relevant issue. On this basis, it is believed that their independence on all other issues is not compromised.

To assist Directors to fully meet their responsibilities to bring an independent view to matters coming before them, the Board has agreed a procedure in appropriate situations for Directors to take independent professional advice, at the expense of the Company, after advising the Chairman of their intention to do so. This is in relation to carrying out their duties as members of the Board and members of Board Committees.

For the reasons set out above, the Board believes that the Company is fully compliant with Principle 2, but does not consider it appropriate for the Company to follow the recommendation that the Chairman of the Board should be an independent Director.

Principle 3: Promotion of Ethical and Responsible Decision-making

Compliance with this Principle requires that the Company should actively promote ethical and responsible decision-making.

The Company, including its Directors and key Executives, is committed to maintaining the highest standards of integrity and seeks to ensure all its activities are undertaken with efficiency, honesty and fairness, and in accordance with their legal obligations. The Company also maintains a high level of transparency regarding its actions consistent with the need to maintain the confidentiality of commercial-in-confidence material and, where appropriate, to protect the shareholders' interests.

The Company has approved and published Corporate Principles of Conduct and a Trading Policy for Directors which are available on the website together with the Company's Trading Policy that the Company has for dealing in its own shares by its Senior Executives and AICS employees. In accordance with the Company's policy, no AFIC shares held by Directors are to be held subject to margin loans. The Corporate Principles of Conduct include the code of conduct for Directors and Senior Executives. These documents are provided to management and new Directors as they join the Company and any updates are provided to all employees and Directors.

Because of the Company's operation as a listed investment company, its key stakeholders are its shareholders, AICS employees and the small number of creditors the Company has. As noted above, the Company has published Corporate Principles of Conduct which are intended to guide the activities of Directors, Senior Executives and AICS employees and are designed to ensure that the legal requirements and other obligations to stakeholders are complied with at all times. It is available on the Company's website.

The Company has adopted a 'Whistleblower' policy which is communicated to all AICS employees and is designed not only to encourage the reporting of any unethical or illegal behaviour but also to protect any individual who makes such a report.

In addition to the consideration by the Board of individual Directors' independence, the Corporate Principles of Conduct set out details of how conflicts of interest should be avoided. The Company's Directors and employees must disclose to the Company any material personal interest that they or any associate may have in a matter that relates to the affairs of the Company. Directors must inform the Company Secretary immediately they become aware of any changes to their shareholdings or directorships. Where a conflict of interest may arise, full disclosure by all interested persons must be made and appropriate arrangements followed, such that interested persons are not included in making the relevant decisions and discussions.

The Board believes that the Company is fully compliant with Principle 3 and its recommendations.

Principle 4: Safeguarding Integrity in Financial Reporting

Compliance with this Principle requires that the Company has a structure to independently verify and safeguard the integrity of the Company's financial reporting.

The Company has established an Audit Committee to oversee the integrity of the financial reporting process and which reports to the Board. The Committee currently has three members, all of whom are independent Directors: FD Ryan (Chairman), DR Argus and CM Walter.

The number of meetings held during the year and attendance by committee members are set out on page 8. All members of the Audit Committee have the requisite financial experience and understanding to effectively discharge the Committee's mandate. In addition, the Chairman of the Committee is a Fellow of the Institute of Chartered Accountants in Australia and has relevant experience and qualifications, but has no responsibilities additional to those of other members of the Audit Committee, other than as Chairman.

The Audit Committee is responsible for reviewing:

- the Company's accounting policies;
- the content of financial statements;
- issues relating to the controls applied to the Company's activities;
- the conduct, effectiveness and independence of the external audit;
- risk management and related issues; and
- compliance issues.

The role of the Audit Committee in respect of its oversight of risk management issues is set out under Principle 7 below, on page 44.

Written Affirmations

The Board has received from the Managing Director and the Chief Financial Officer written affirmations concerning the Company's financial statements as set out in the Directors' Declaration on page 84.

External Audit

The Company has a process to ensure the independence and competence of the Company's external auditor including the Audit Committee reviewing any non-audit work to ensure that it does not conflict with audit independence. Information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners is set out in the Committee's charter. Policies relating to rotating external audit engagement partners are set by the external audit firm in accordance with Corporations Act and International best practice requirements.

The Audit Committee meets regularly with the external auditor in the absence of management.

The Board believes that the Company is fully compliant with Principle 4 and its recommendations.

Principle 5: Making Timely and Balanced Disclosure

Compliance with this Principle requires that the Company promote timely and balanced disclosure of all material matters concerning the Company.

As a listed entity, the Company has an obligation under the ASX Listing Rules to maintain an informed market in its securities. Accordingly, the Company ensures that the market is advised of all information required to be disclosed under the Listing Rules which the Company believes would or may have a material effect on the price or value of the Company's securities.

The Company has a written policy and procedures designed to ensure compliance with ASX Listing Rule and Corporations Act disclosure requirements and to ensure accountability at a senior management level for that compliance. The policy is publicly available on the Company's website. The policy has been reviewed during the course of the year, taking into account best practice developments in this area.

The Board believes that the Company is fully compliant with Principle 5 and its recommendations.

Principle 6: Respecting the Rights of Shareholders

Compliance with this Principle requires that the Company respect the rights of shareholders and facilitate the effective exercise of those rights.

The Company is owned by its shareholders and the Board's primary responsibility to them is to support and further the Company's Corporate Objective and so increase the Company's value for all shareholders.

The Board maintains active and frequent face-to-face communication with shareholders as owners of the Company. In addition to communicating with shareholders via the Annual and Half-Year Reports and the Annual General Meeting, the Company holds regular non-statutory shareholder meetings in the Australian capital cities to provide shareholders with the opportunity to meet with representatives of the Board and Management, to learn more about the Company's activities and particularly to provide an opportunity to ask questions of the Board and Management about any aspect of the Company's activities.

These meetings are incorporated into the Annual General Meeting and are also held following the release of the Company's half-year results. During the financial year, shareholder meetings were held in Sydney, Melbourne, Brisbane, Adelaide, Canberra, Perth, Launceston, Hobart and New Zealand.

The Company maintains a comprehensive website that contains ASX/NZX announcements, Annual Reports, Half-Yearly Reports, details of corporate governance practices, presentations to shareholders, and related material for shareholders and investors. In addition, the Company's policy on shareholder communication is published on the website.

The Board believes that the Company is fully compliant with Principle 6 and its recommendations.

Principle 7: Recognising and Managing Risk

Compliance with this Principle requires that the Board establish a sound system of risk oversight and management and internal control.

The Board considers that the Company has established and maintains a sound system of risk oversight, management and internal control. The Risk Management Framework adopted by the Company is available on the Company's website.

The framework has been revised during the year, taking into account the new international standard on Risk Management, ISO: 31000.

The Board are assisted in their Risk Management activities by the Audit Committee and coordination of Risk Management activities is done by the Chief Financial Officer, who reports to the Audit Committee on such matters.

There are two main areas of risk that have been identified:

- investment risk; and
- operational risk.

Investment Risk

Investment risk includes:

- market risk;
- credit, counter-party and settlement risk;
- liquidity risk; and
- reputational risk (insofar as it relates to the investments that the Company enters into).

The Investment Committee is primarily responsible for dealing with issues arising from investment risk, who have delegated day-to-day management of the portfolios to an experienced investment team provided by AICS. All decisions of the team are reviewed, discussed and where necessary, ratified by the Committee.

By its nature as a listed investment company, the Company will always carry investment risk because it must invest its capital in securities which are not risk free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

In addition to the investment portfolio, the Company also operates a trading portfolio for short term opportunities. The Company seeks to enhance the return from that portfolio by also selling call and put options. In normal circumstances, the Board restricts the size of the trading portfolio to 10 per cent or less of the assets of the Company. The Board, through its Investment Committee, maintains close control of option transactions. Option transactions are limited to stocks held in the trading portfolio for the purpose of enhancing returns from that portfolio and buying and/or selling stocks at attractive prices.

Operational Risk

The Company's management is primarily responsible for recognising and managing operational risk issues such as legal and regulatory risk, systems and process risk, human resource risk, reputation risk (insofar as it relates to the operations of the Company), disaster recovery risk, and occupational health and safety risk. A further risk comprises ensuring compliance with AICS's Australian Financial Services Licence requirements. This aspect of management's role is specifically overseen by the Audit Committee of AICS and reported to the Company's Audit Committee. The Chairman of the Company's Audit Committee, FD Ryan, is also Chairman of the AICS Audit Committee.

The Company has received a report from AICS outlining the control objectives for AICS and the specific policies and procedures established to meet these procedures. These policies include management oversight, segregation of duties, multiple sign-offs and specific authorisation levels. AICS has stated that these have been in place throughout the period, and have been effective in meeting the control objectives. This statement and verification have been confirmed by AICS's internal auditors, Ernst & Young, under the requirements of Auditing Standard 810.

Written Affirmations

The Board has received from the Managing Director and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects insofar as they relate to financial reporting risks. The Audit Committee and the Board have also received reports from management as to the effectiveness of the Company's management of its material business risks whilst noting that as a listed investment company, the Company can never be entirely free of investment risk.

Further details with regard to financial risk management can be found in Note 23 to the financial statements.

The Board believes that the Company is fully compliant with Principle 7 and its recommendations.

Principle 8: Remunerating Fairly and Responsibly

Compliance with this Principle requires that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is defined.

The Company has a Remuneration Committee to look after remuneration issues relating to the Non-Executive Directors, the Managing Director and Senior Executives. The Charter of the Remuneration Committee is available on the Company's website.

DR Argus (Chairman), BB Teele, J Paterson and CM Walter are members of the Remuneration Committee. The majority of the members of this Committee are independent Directors and the Chairman of the Committee is an independent Director. The number of meetings and the Directors' attendance are set out in the Directors' Report on page 8. The Remuneration Committee seeks external advice from consultants to ensure that its policies and practices are in line with external market conditions.

Executives who have been awarded shares and previous Long Term Incentive Plans that have not yet vested are prohibited from entering into transactions in associated products which limit the risk of participation in such plans.

Retirement allowances for Non-Executive Directors were frozen at 30 June 2004. Allowances are no longer accrued for, but all such allowances accrued for at 30 June 2004 are due and payable when the Director for whom such amounts were accrued retires.

Full details regarding the remuneration amounts and policies are disclosed in the Remuneration Report on pages 10 to 35.

The Board believes that the Company is fully compliant with Principle 8 and its recommendations.

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2010

	Year to 30 June 2010			Year to 30 June 2009		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'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 2009	-	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 2009	-	-	-	-	(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) million; 2009 – $302.9 million.

	Year to 30 June 2010			Year to 30 June 2009		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Total comprehensive income is attributable to						
Equity holders of Australian Foundation Investment Company Ltd	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 and 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.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2010

Year Ended 30 June 2010	Note	Share Capital $'000	Revaluation Reserve $'000	'Impairment' Revaluation Charge Reserve $'000
		Attributable to equity holders of Australian Foundation Investment Company Ltd		
Total equity at the beginning of the year as reported		1,737,790	1,120,948	(107,793)
Adoption of AASB 9	36	-	(108,914)	107,793
Restated total equity at the beginning of the year		1,737,790	1,012,034	-
Dividends paid	24	-	-	-
Shares issued – Dividend Reinvestment Plan	16	45,291	-	-
– Share Purchase Plan	16	83,031	-	-
Other share capital adjustments	16	(114)	-	-
Total transactions with shareholders		128,208	-	-
Profit for the year		-	4,780	-
Other comprehensive income for the year (net of tax)				
Net unrealised gains for the period for stocks held at 30 June		-	306,943	-
Net gains for the period on investments realised		-	2,299	-
Transfer of cumulative gains on investments realised		-	(3,571)	-
Net movement in fair value of swap contracts		-	-	-
Other comprehensive income for the year		-	305,671	-
Total equity at the end of the year		1,865,998	1,322,485	-

Year Ended 30 June 2009	Note	Share Capital $'000	Revaluation Reserve $'000	'Impairment' Revaluation Charge Reserve $'000
		Attributable to equity holders of Australian Foundation Investment Company Ltd		
Total equity at the beginning of the year		1,692,908	1,754,633	-
Adoption of AASB 9	36	-	(891)	-
Restated total equity at the beginning of the year		1,692,908	1,753,742	-
Dividends paid	24	-	-	-
Shares issued – Dividend Reinvestment Plan	16	44,795	-	-
Other share capital adjustments		87	-	-
Total transactions with shareholders		44,882	-	-
Profit for the year		-	(2,875)	-
Other comprehensive income for the year (net of tax)				
Net unrealised gains for the period for stocks held at 30 June		-	(686,393)	-
Net losses for the period on investments realised		-	(40,460)	-
Transfer to Income Statement of realised gains on investments		-	(11,750)	-
Transfer of prior year cumulative gains on hybrids sold		-	(230)	-
Net movement in fair value of swap contracts		-	-	-
Other comprehensive income for the year		-	(738,833)	-
Total equity at the end of the year		1,737,790	1,012,034	-

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

Attributable to equity holders of Australian Foundation Investment Company Ltd						
Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
354,278	23,637	(1,455)	432,887	3,560,292	270	3,560,562
-	-	-	1,121	-	-	-
354,278	23,637	(1,455)	434,008	3,560,292	270	3,560,562
(20,572)	-	-	(185,617)	(206,189)	-	(206,189)
-	-	-	-	45,291	-	45,291
-	-	-	-	83,031	-	83,031
-	-	-	-	(114)	-	(114)
(20,572)	-	-	(185,617)	(77,981)	-	(77,981)
(488)	-	-	179,269	183,561	192	183,753
-	-	-	-	306,943	-	306,943
-	-	-	-	2,299	-	2,299
4,059	-	-	-	488	-	488
-	-	904	-	904	-	904
4,059	-	904	-	310,634	-	310,634
337,277	23,637	(551)	427,660	3,976,506	462	3,976,968

Attributable to equity holders of Australian Foundation Investment Company Ltd						
Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
468,904	23,637	1,709	311,200	4,252,991	92	4,253,083
-	-	-	891	-	-	-
468,904	23,637	1,709	312,091	4,252,991	92	4,253,083
(126,031)	-	-	(78,002)	(204,033)	-	(204,033)
-	-	-	-	44,795	-	44,795
-	-	-	-	87	-	87
(126,031)	-	-	(78,002)	(159,151)	-	(159,151)
11,405	-	-	199,719	208,249	178	208,427
-	-	-	-	(686,393)	-	(686,393)
-	-	-	(30)	(40,490)	-	(40,490)
-	-	-	-	(11,750)	-	(11,750)
-	-	-	230	-	-	-
-	-	(3,164)	-	(3,164)	-	(3,164)
-	-	(3,164)	200	(741,797)	-	(741,797)
354,278	23,637	(1,455)	434,008	3,560,292	270	3,560,562

CASH FLOW STATEMENT

For the Year Ended 30 June 2010

	Note	Consolidated 2010 $'000 Inflows/ (Outflows)	Consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS

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 and 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 2009.

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 and 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 per cent 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 Plan 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 per cent), 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 AASB 112 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 per cent) comprising more than 10 per cent 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	Consolidated 2009 $'000
Operating profit before income tax expense	187,579	203,032
Tax at the Australian tax rate of 30 per cent (2009: 30 per cent)	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 per cent (2009: 30 per cent)	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	Consolidated 2009 $'000	Consolidated 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 per cent (2009: 5.12 per cent, 2008: 7.3 per cent).

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

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
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

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
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 and Fittings

	Consolidated		
	2010 $'000	2009 $'000	2008 $'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

	2010 $'000	2009 $'000	2008 $'000
Equity investments			
- equity instruments (excluding 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

	2010 $'000	2009 $'000	2008 $'000
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.

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
Movement on amount payable for Directors' retirement benefits during the year:			
Opening balance	567	681	681
Amount paid during year	-	(114)	-
	567	567	681

12. Current Liabilities – Provisions

	2010 $'000	2009 $'000	2008 $'000
Employee entitlements	1,739	1,874	1,314

13. Non-Current Liabilities – Provisions

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
Employee entitlements	589	404	217

14. Deferred Tax Liabilities – Investment Portfolio

	2010 $'000	2009 $'000	2008 $'000
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.

	2010 $'000	2009 $'000	2008 $'000
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 and 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:

	2010 $'000	2009 $'000	2008 $'000
(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 2010 Shares '000	Consolidated and Parent Entity 2010 $'000	Consolidated and Parent Entity 2009 Shares '000	Consolidated and Parent Entity 2009 $'000	Consolidated and Parent Entity 2008 Shares '000	Consolidated and Parent Entity 2008 $'000
Ordinary shares – fully paid	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
01/07/2008	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 2008-2009	Opening Balance	Acquired on-Market	Expense Recognised	Cancelled	Residual Transferred	Closing Balance
October 2004	6,227	-	6,227	-	-	0
April 2005	6,147	-	6,147	-	-	0
October 2005	36,285	-	29,028	-	-	7,257
March 2006	35,146	-	21,087	-	-	14,059
August 2006	38,330	-	13,022	11,774	-	13,534
October 2006	72,036	-	32,016	-	-	40,020
February 2007	227,938	-	140,494	-	-	87,444
August 2007	190,537	-	57,352	15,551	-	117,634
August 2008	-	212,130	48,614	-	-	163,516
Total for 2008-2009	612,646	212,130	353,987	27,325	-	443,464

Award Date 2009-2010	Opening Balance	Acquired on-Market	Expense Recognised	Cancelled	Residual Transferred	Closing Balance
October 2005	7,257	-	7,257	-	-	0
March 2006	14,059	-	14,059	-	-	0
August 2006	13,534	-	12,506	-	-	1,028
October 2006	40,020	-	32,016	-	-	8,004
February 2007	87,444	-	87,444	-	-	0
August 2007	117,634	-	56,464	-	-	61,170
August 2008	163,516	-	53,028	-	-	110,488
October 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

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
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

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
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

	Consolidated		
	2010 $'000	2009 $'000	2008 $'000
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 per cent 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 per cent 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 overdue.

Cash

All cash investments not held in a transactional account are invested in short term deposits with Australia's 'big four' 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 and 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 and 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.

	Less Than 6 Months $'000	6-12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount (Assets)/ Liabilities $'000
30 June 2010					
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					
Non-derivatives					
Payables	46,547	-	-	46,547	46,547
Borrowings	50,000	-	-	50,000	50,000
	96,547	-	-	96,547	96,547
Derivatives					
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 per cent and 10 per cent, 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 per cent (2009: $131.3 million and $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 per cent (2009: $0.2 million and $0.4 million). A fall of 5 per cent and 10 per cent 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 per cent after tax to fully deplete this (2009: 38 per cent).

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 (including property trusts)	8.78	10.82
Telecommunications	3.58	4.09
Other – healthcare, information technology, utilities	7.85	4.38
Cash	2.53	6.16

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

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 per cent 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 feels 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 per cent 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 per cent of the total invested including cash (2009: 0.6 per cent). 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 (equity)	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 2009 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 per cent paid on 1 September 2009 (2009: 13 cents fully franked at 30 per cent 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 per cent, paid 26 February 2010 (2009: 8 cents fully franked at 30 per cent 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

	2010 $'000	2009 $'000
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 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

	2010 $'000	2009 $'000
Since the end of the year Directors have declared a final dividend of 13 cents per share fully franked at 30 per cent. 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

	2010	2009
Basic Earnings Per Share	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	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
2010						
October 2004	October 08 – October 09	3,686	-	-	3,686	0
October 2005	October 09 – October 10	28,995	-	28,995	-	0
March 2006	March 10 – March 11	17,391	-	17,391	-	0
August 2006	August 10 – August 11	10,107	-	-	-	10,107
October 2006	October 10 – October 11	26,186	-	-	-	26,186
February 2007*	N/A	23,333	-	23,333	-	0
August 2007	August 11 – August 12	38,569	-	-	-	38,569
August 2008	August 12 – August 13	40,887	-	-	-	40,887
October 2009	October 13 – October 14	-	39,502	-	-	39,502
Total		189,154	39,502	69,719	3,686	155,251

Award Date	Assessment Period	Balance at Start of the Year Number	Awarded During the Year Number	Vested During the Year Number	Lapsed During the Year Number	Balance at End of the Year Number
2009						
March 2004	March 08 – March 09	42,125	-	35,104	7,021	0
October 2004	October 08 – October 09	29,485	-	25,799	-	3,686
April 2005	April 09 – April 10	9,130	-	9,130	-	0
October 2005	October 09 – October 10	28,995	-	-	-	28,995
March 2006	March 10 – March 11	17,391	-	-	-	17,391
August 2006	August 10 – August 11	15,484	-	-	5,377	10,107
October 2006	October 10 – October 11	26,186	-	-	-	26,186
February 2007*	N/A	46,666	-	23,333	-	23,333
August 2007	August 11 – August 12	42,211	-	-	3,642	38,569
August 2008	August 12 – August 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 three years.

The maximum number of shares that may vest is as above. The minimum is nil.

Shareholdings

At balance date, shares issued by the Group and held directly, indirectly or beneficially by Non-Executive Directors and Executives of the Group, or by entities to which they were related were:

	Opening Balance	Received as Remuneration	Other Changes*	Closing Balance	Subject to Vesting
2010					
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.

	Opening Balance	Received as Remuneration	Other Changes	Closing Balance	Subject to Vesting
2009					
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 Number	2009 Number
Employee numbers		
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 eight 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	Consolidated 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, which is 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:

	2010 $'000	2009 $'000
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.

	2010 $'000	2009 $'000
(a) Administration expenses charged for the year	1,898	1,999

29. Remuneration of Auditors

	Consolidated 2010 $	Consolidated 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 five years.

30. Reconciliation of Net Cash Flows from Operating Activities to Profit Consolidated

	Consolidated	
	2010 $'000	2009 $'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 Licence 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 six and half years with three further options of four years. Commitments relating to leases at balance date, but not recognised as a liability:

	Consolidated	
	2010 $'000	2009 $'000
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):

			Equity Holding	
Name of Entity	Country of Incorporation	Class of Shares	2010	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 per cent 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 eight 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 $'000	2009 $'000
Share-based payment expense	536	629

(d) 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:

	Consolidated 2009 $'000
(i) Net Profit	
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 and 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 2009. 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 investments, although this has not impacted the value of these investments.

	As Previously Reported $'000	Restated $'000
AIFRS Classification		
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 (i.e. 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

Listed below are those 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

	2010 $'000	2009 $'000
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
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
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 2009	-	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

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 47 to 83 are in accordance with the Corporations Act 2001 including:

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

  (b) giving a true and fair view of the entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

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

Note 1 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer and to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with accounting standards and that they give a true and fair view.

Bruce B Teele
Chairman

Melbourne
26 July 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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2 Southbank Boulevard
SOUTHBANK VIC 3006
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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.

PRICEWATERHOUSECOOPERS

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

David Coogan
Partner

Melbourne
26 July 2010

OTHER INFORMATION

INFORMATION ABOUT SHAREHOLDERS

The information below includes AFIN shares issued under the 2010 Share Purchase Plan that do not qualify for the final dividend. At 21 July 2010 there were 92,462 holdings of shares. These holdings were distributed in the following categories:

Size of Holding			Holding
1	to	1,000	20,089
1,001	to	5,000	32,612
5,001	to	10,000	16,924
10,001	to	100,000	21,931
100,000	and	over	906
Total			92,462

Percentage held by the 20 largest shareholders	6.47%
Average shareholding	10,892

There were 2,703 shareholdings of less than a marketable parcel of $500 (105 shares).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, one vote for each shareholder; and

(ii) on a poll, one vote for each fully paid ordinary share.

Major Shareholders

The 20 largest registered shareholders of the Company's ordinary shares as at 21 July 2010 are noted below:

Holder	Shares Held	%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	5,845,889	0.58
ANZ Nominees Limited <Cash Income A/C>	5,469,225	0.54
Questor Financial Services Limited <TPS RF A/C>	5,447,366	0.54
Bougainville Copper Limited	4,928,208	0.49
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	4,539,927	0.45
National Nominees Limited	4,230,367	0.42
Investment Custodial Services Limited <C A/C>	3,637,776	0.36
HSBC Custody Nominees (Australia) Limited	3,549,824	0.35
New Zealand Central Securities Depository Limited	3,060,550	0.30
Perpetual Trustee Company Limited	2,962,114	0.29
Trustees of the Redemptorist Fathers	2,878,000	0.29
UBS Wealth Management Australia Nominees Pty Ltd	2,566,607	0.25
C B H Superannuation Holdings Pty Ltd	2,500,000	0.25
Bushways Pty Ltd	2,333,004	0.23
RBC Dexia Investor Services Australia Nominees Pty Limited <NMSMT A/C>	2,161,314	0.21
Invia Custodian Pty Limited <RISF A/C>	1,932,631	0.19
Bruce Teele	1,889,508	0.19
Kalymna Pty Ltd	1,852,186	0.18
Forbar Custodians Limited <Forsyth Barr Ltd-Nominee A/C>	1,743,375	0.17
Custodial Services Limited <Beneficiaries Holding A/C>	1,600,716	0.16

HOLDINGS OF SECURITIES

At 30 June 2010

Individual investments for the combined investment and trading portfolios as at 30 June 2010 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website www.afi.com.au

Individual holdings in the portfolios may change during the course of the year. In addition, holdings which are part of the trading portfolio may be subject to call options sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
AGK	AGL Energy	4,287	4,287	63,019
AIX	Australian Infrastructure Fund	27,784	32,653	55,510
AMC	Amcor	10,066	12,624	80,539
AMP*	AMP	10,331	10,768	56,083
ANZ*	Australia and New Zealand Banking Group	6,312	7,010	151,138
APN	APN News & Media	11,825	10,479	20,802
ASZ	ASG Group	5,638	5,902	8,293
AWC	Alumina	14,323	14,323	21,843
AXA	AXA Asia Pacific Holdings	7,950	8,124	44,440
BHP*	BHP Billiton	14,257	14,277	537,475
BKN	Bradken	5,964	6,079	43,768
BKW	Brickworks	1,478	1,478	17,662
BLD	Boral	3,810	3,810	18,366
BXB	Brambles	7,688	8,675	47,366
CBA	Commonwealth Bank of Australia	8,473	8,473	412,122
CCL*	Coca-Cola Amatil	3,821	4,296	51,065
CFX	CFS Retail Property Trust	18,730	20,099	37,987
CPA	Commonwealth Property Office Fund	26,475	26,475	24,622
CPB	Campbell Brothers	514	725	21,859
CPU	Computershare	8,156	8,156	86,539
CRG	Crane Group	156	161	1,293
CSL	CSL	197	217	7,065
CSR	CSR	6,244	7,337	12,326
CWP	Cedar Woods Properties	3,518	3,630	8,894
CYG	Coventry Group	1,650	1,650	3,053
DJW	Djerriwarrh Investments	8,597	8,597	33,870
DUI	Diversified United Investment	12,030	12,030	34,767
EQT	Equity Trustees	580	647	9,828
ESG	Eastern Star Gas	0	10,900	8,993
FGL	Foster's Group	6,527	6,527	36,874
FWD	Fleetwood Corporation	735	735	6,758
FXJ	Fairfax Media	9,705	9,705	12,762
GUD	GUD Holdings	2,000	2,260	19,548
GWT	GWA International	6,681	6,681	20,110
HDF	Hastings Diversified Utilities Fund	4,734	22,103	28,071
HIL	Hills Industries	4,262	4,262	9,163
HSP	Healthscope	542	1,558	8,086
IAG	Insurance Australia Group	2,000	2,500	8,525
ILU	Iluka Resources	1,390	1,390	6,463
IPL	Incitec Pivot	17,939	18,079	49,357
IRE	Iress Market Technology	1,037	1,037	9,010
MIR	Mirrabooka Investments	8,546	8,546	14,486
MLT	Milton Corporation	2,881	2,881	46,032
MTS	Metcash	4,500	4,750	19,902
NAB	National Australia Bank	8,435	8,789	204,598
NUF	Nufarm	2,676	2,538	13,677

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
OKN	Oakton	1,945	1,945	4,668
ORG*	Origin Energy	4,854	5,249	78,312
ORI	Orica	2,509	2,509	63,229
OSH*	Oil Search	11,954	14,055	77,689
OST*	OneSteel	2,059	2,302	6,852
PPC	Peet	11,184	11,184	23,598
PPT	Perpetual	500	837	23,659
PRG	Programmed Maintenance Services	1,363	1,363	3,393
QBE*	QBE Insurance Group	3,925	4,621	84,108
RHC	Ramsay Health Care	318	686	9,637
RIO	Rio Tinto	2,343	3,574	238,223
SHL	Sonic Healthcare	154	154	1,604
STO	Santos	6,718	6,853	86,346
TCL*	Transurban Group	9,556	14,877	63,024
TGG	Templeton Global Growth Fund	7,900	7,900	6,004
TLS	Telstra Corporation	48,820	50,070	162,727
TOL	Toll Holdings	8,000	8,133	44,566
TOX	Tox Free Solutions	5,196	6,199	14,568
TRU	Trust Company of Australia	696	1,556	8,591
WAN	West Australian Newspapers Holdings	7,921	8,046	52,622
WBC	Westpac Banking Corporation	17,699	18,236	387,155
WDC*	Westfield Group	3,987	4,483	54,550
WES	Wesfarmers	6,166	6,166	176,654
WESN	Wesfarmers PPS	1,400	1,400	40,309
WOW	Woolworths	6,204	6,204	167,625
WPL	Woodside Petroleum	2,381	2,610	109,183
Total				4,422,906

* Investments marked with an asterisk were the subject of options, either for the whole holding in the trading portfolio or part of it.

Convertible Notes, Preference Shares and Other Interest Bearing Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
NABHA	National Australia Bank Income Securities	30	30	2,256
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	10,926
Total				13,182

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $5 Million)	Total Cost $'000
Transurban Group	21,161
Hastings Diversified Utilities Fund	15,632
Oil Search	12,317
Amcor	11,000
Perpetual	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
Campbell Brothers	5,279

Disposals (Above $5 Million)	Total Proceeds $'000
Santos FUELS[a]	13,152
Nufarm	7,859

(a) Redeemed by the Company.

MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

Acquisitions (Above $2 Million)	Total Cost $'000
ANZ Banking Group	9,229
QBE Insurance Group	6,350
Origin Energy	5,464
Telstra Corporation	4,338
Coca-Cola Amatil	4,285
Transurban Group	3,332
Westfield Group	2,999
AMP	2,506
Insurance Australia Group	2,003

Net Disposals (Above $2 Million)	Total Proceeds $'000
APN News & Media	2,494

Note: These items are the net movements in the trading portfolio where there were both purchases and sales during the year.

SUB-UNDERWRITING

During the year the Company participated as a sub-underwriter of issues of securities. The principal underwriter and securities involved were:

Company	Underwritten By	Description	Amount Underwritten
Amcor	Commsec JP Morgan BoA Merrill Lynch UBS Deutsche	4 for 9 non renounceable rights offer at $4.30 per share	$11,379,715
Hastings Diversified Utilities Fund	UBS JP Morgan	1 for 1 renounceable rights offer at 90 cents per share	$7,000,000
Campbell Brothers	RBS Morgans JP Morgan	1 for 6 renounceable rights offer at $22.00 per share	$3,750,010

SUBSTANTIAL SHAREHOLDERS

The Company has not been notified of any substantial shareholders.

TRANSACTIONS IN SECURITIES

During the year ended 30 June 2010, the Company recorded 451 transactions in securities. $591,165 in brokerage (including GST) was paid or accrued for the year.

ISSUES OF SECURITIES

Date of Issue	Type	Price	Remarks
2 June 2010	SPP	$4.62	2.5 per cent discount SPP = Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 Rights Issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

Note: For issues of securities in earlier years please consult the Company's website, www.afi.com.au or via telephone (03) 9650 9911.

KEY STATISTICS

	2010	2009	2008	2007	2006
Net profit after tax ($ Million) [a]	183.8	208.4	416.1	259.3	214.1
Operating profit after tax ($ Million)	179.5	199.6	205.1	224.4	179.6
Investments at market value ($ Million) [b]	4,436	3,795	4,789	5,801	4,513
Net operating profit per share (Cents)	18.2	20.5	21.2	23.7	19.4
Dividends per share (Cents) [c]	21	21	21	21	17
Net asset backing (Cents) [d]	449.2	406.3	513.2	601.6	482.4
Number of shareholders (30 June)	92,442	89,833	87,363	83,773	80,101

Notes

(a) 2009 Profit restated following changes to accounting standards including the adoption of AASB 9. 2008 and prior years' figures are as reported under previous accounting standards.

(b) Excludes cash.

(c) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2010: 1.4 cents, 2009: 3 cents, 2008: 18.6 cents, 2007: 2.5 cents, 2006: 2 cents.

(d) Net asset per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

COMPANY PARTICULARS

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

Directors
Bruce B Teele, Chairman
Donald R Argus AC
Ross E Barker, Managing Director
Terrence A Campbell AO, Deputy Chairman
John Paterson
Fergus D Ryan
Catherine M Walter AM
Peter J Williams

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office
Level 21, 101 Collins Street
Melbourne Victoria 3000

Mailing Address
GPO Box 2114
Melbourne Victoria 3001

Contact Details

Telephone	(03) 9650 9911
Facsimile	(03) 9650 9100
Website	www.afi.com.au
Email	invest@afi.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange):

Telephone 1800 780 784 (toll free)

Share Registrar
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Shareholder Enquiry Lines	1300 662 270 +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Email	web.queries@computershare.com.au
Website	www.computershare.com

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar as above.

Australian Securities Exchange Code

AFI	Ordinary shares

Annual General Meeting

Time	10.00am
Date	Monday 4 October 2010
Venue	Hilton on the Park
Location	192 Wellington Parade East Melbourne

Sydney Shareholder Meeting

Time	10.00am
Date	Monday 11 October 2010
Venue	Four Seasons Hotel
Location	199 George Street Sydney

Adelaide Shareholder Meeting

Time	10.00am
Date	Monday 18 October 2010
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

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EXPERIENCE INCOME GROWTH

ANNUAL REVIEW 2010

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

CONTENTS

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

The Statutory Annual Report for 2010 is available on AFIC's website www.afi.com.au or by contacting the Company on (03) 9650 9911.

ABOUT THE COMPANY

AFIC aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and growth of capital invested.

The primary investment goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

The Company's investment philosophy is built on taking a medium to longer term view of value which means that the aim is to buy and hold individual stocks for the long term based on AFIC's selection criteria.

By investing in AFIC, shareholders have immediate access to a diversified portfolio numbering around 75 of Australia's major companies and to a Board and Investment Committee with extensive investment skills and practical business experience.

SUMMARY OF RESULTS

Total Portfolio Return

Total portfolio return after management fees and tax paid on income and realised gains over the year to 30 June 2010 (change in net asset backing per share plus dividends reinvested) was an increase of 15.6 per cent. The S&P/ASX 200 Accumulation Index increased 13.1 per cent over the same period.

Total Shareholder Return

Total shareholder return measured by change in share price plus dividends over the 12 month period was positive 12.9 per cent. The difference between the share price return and the portfolio return was as a result of the share price moving to a reduced premium over net asset backing by the end of the year.

Net Operating Profit

Net operating profit was $179.5 million (last year $199.6 million), down 10.1 per cent from the previous corresponding period. Income from investments fell as companies substantially reduced their dividend payments during the year. However, a turnaround in the contribution from the trading portfolio as equity markets experienced more positive conditions helped offset some of this decline.

Reported Profit

Reported profit for the year was $183.8 million (last year $208.4 million). Note last year's comparative figure has been restated from $103.5 million following adoption of new accounting standards in December 2009 which changed the treatment of realised and unrealised gains and losses and impairment.

Earnings Per Share

Earnings per share based on net operating profit were 18.2 cents compared with 20.5 cents last year.

A Fully Franked Final Dividend

A fully franked final dividend of 13 cents per share was announced. This final dividend is unchanged from last year. The final dividend of 13 cents brings total dividends for the year to 21 cents per share fully franked, the same as last year.

Listed Investment Company Capital Gains

Part of the final dividend is sourced from pre tax listed investment company capital gains of 1.4 cents per share (last year 3.0 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

The Dividend Reinvestment Plan

The Dividend Reinvestment Plan is in operation for the final dividend with a discount of 2.5 per cent applied.

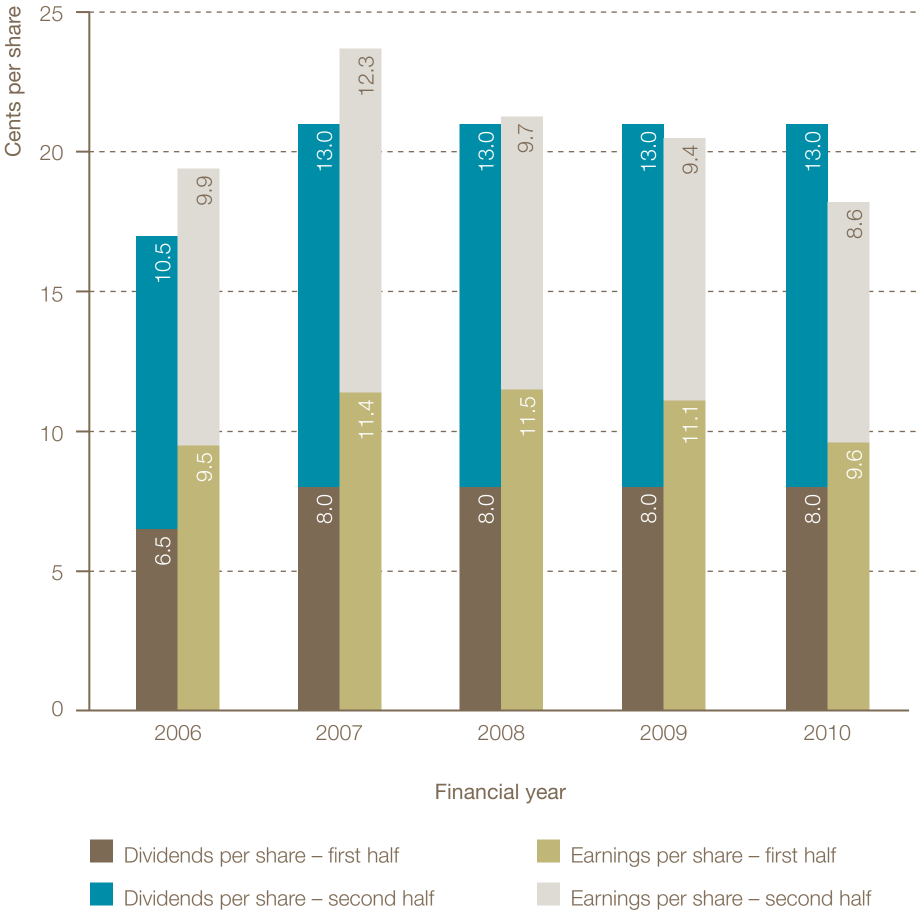
Management Expense Ratio

Management expense ratio was 0.16 per cent. This was down from last year's figure of 0.19 per cent as a result of the increase in value of the portfolio and the decline in expenses from the previous year.

Net Asset Backing at 30 June 2010

Net asset backing at 30 June 2010 was $4.49 per share (before providing for the 13 cent final dividend). At 30 June 2009 the net asset backing was $4.06 per share (before providing for the 13 cent final dividend).

Earnings Per Share v Dividends Per Share



Note: Earnings per share figure is based on net operating profit per share.

Portfolio and Share Price Performance Percentage Per Year

Note: AFIC net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. It should also be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.

REVIEW OF OPERATIONS

Chairman's Comments

Australian equity market growth for the 12 months to 30 June 2010 as measured by the S&P/ASX 200 Accumulation Index return which includes dividends was up 13.1 per cent. AFIC's return on a comparative basis was 15.6 per cent over this period, with the portfolio particularly benefiting from the strong recovery in the banking sector over the year which returned 21.3 per cent.

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.

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.

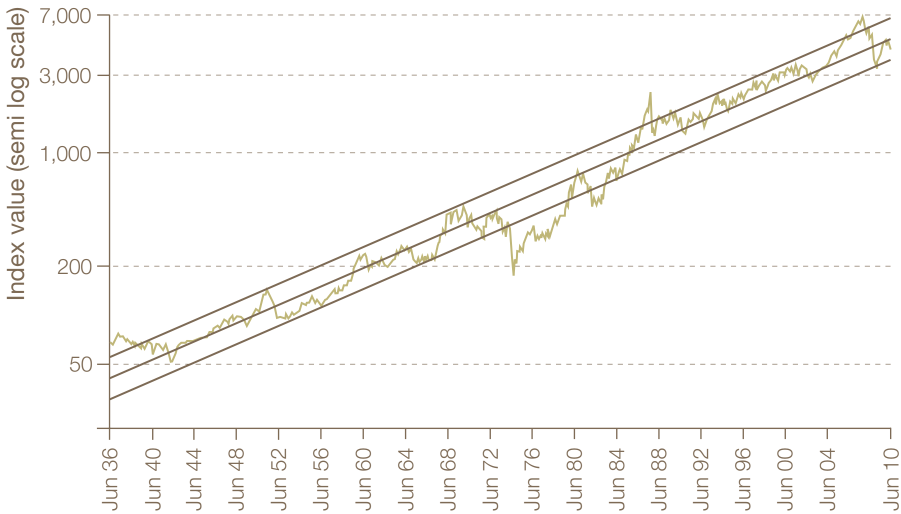
The market is also looking for evidence to support the positive expectations for company earnings in the upcoming reporting season and that governments in developed countries are effectively addressing their high debt levels through appropriate fiscal adjustment.

This year's federal election has also added political uncertainty to the market outlook.

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.

The following chart of the All Ordinaries Price Index measures the share price return of the Australian market since 1936. The long term return over the period is a compound average return of approximately 7 per cent per annum in price terms. The market is currently trading slightly below its long term average.

All Ordinaries Price Index – Long Term Performance



Note: A semi log scale has been used to better show a comparison of the relative size of the percentage changes over the period.

Profit Performance and Dividends

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 per cent 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.

Net profit after tax 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 in December 2009 which changed the treatment of realised and unrealised gains and losses and impairment.

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 was 2.5 per cent.

Part of the final dividend is sourced from listed investment company capital gains of 1.4 cents per share pre tax (last year 3.0 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

Investment Portfolio

The largest contributors by value to the portfolio's performance over the financial year were Commonwealth Bank, BHP Billiton, Rio Tinto, Wesfarmers and Westpac.

The chart on page 10 highlights the strong recovery made across different sectors of the market during this period.

Major purchases made during the financial year were in Australian Infrastructure Fund, Amcor, ANZ, Hastings Diversified Utilities Fund, Oil Search, Perpetual, QBE Insurance, Transurban, Westpac and Woodside Petroleum. Eastern Star Gas, a company focused on the exploration and development of coal seam gas in northern New South Wales, was the only new investment added to the investment portfolio during the year.

Only a small number of sales occurred. 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.

In total $176.7 million of purchases were made in the investment portfolio during the period whereas sales totalled $21.2 million.

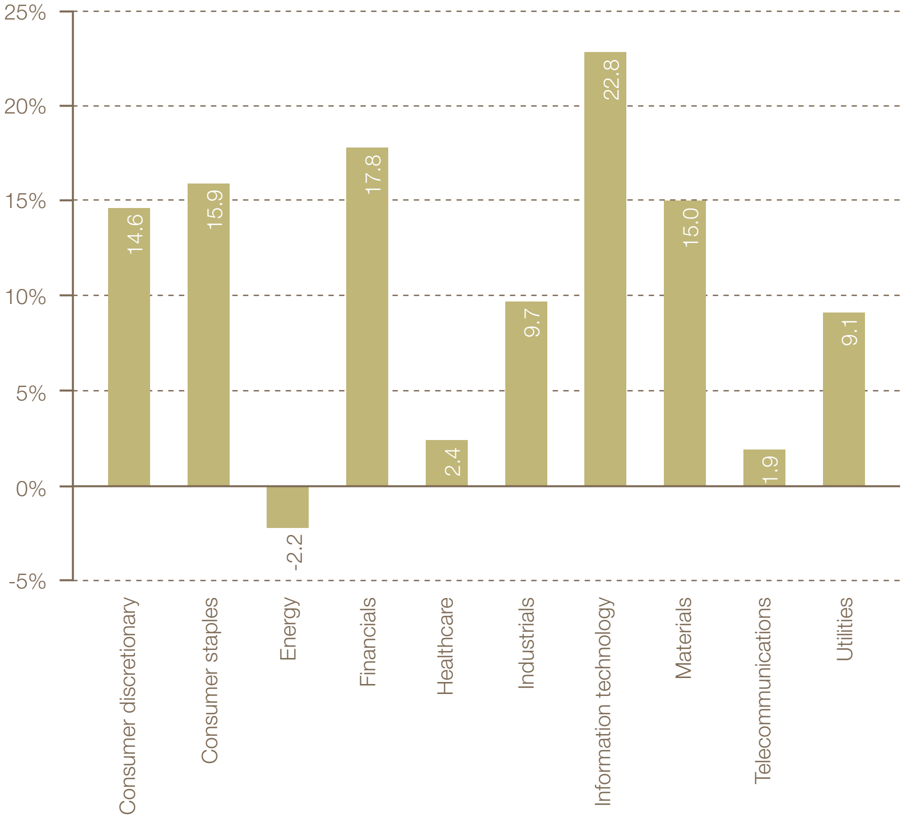
Trading Portfolio

The trading portfolio was utilised more actively during the year to take advantage of specific short term opportunities. These opportunities arose as a result of share price pressure in companies we already hold in the investment portfolio and spikes in volatility which allowed for attractive returns from call option writing activity.

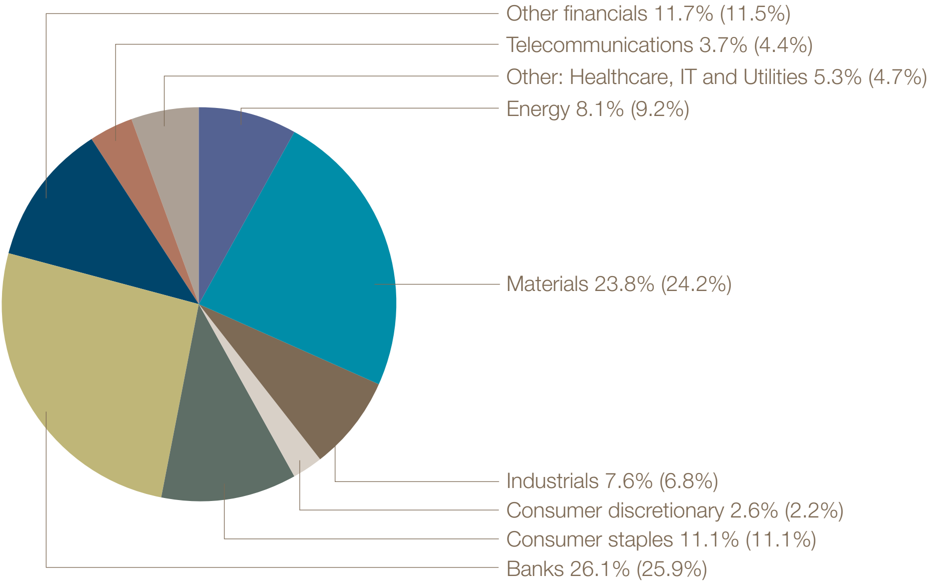
At 30 June 2010, this portfolio was $67.1 million versus $24.1 million last year. The trading portfolio is still relatively small representing 1.5 per cent of the total portfolio with the major holdings comprising ANZ, BHP Billiton, Origin Energy and QBE Insurance.

The chart on page 11 highlights the breakdown of the total portfolio to different sectors of the market.

ASX 200 Accumulation Index Sector Returns – 12 Months to 30 June 2010



AFIC Investment by Sector (excluding cash) as at 30 June 2010 (2009)



Top Investments as at 30 June 2010

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2010

	Investments	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 and 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 a percentage 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.

Directorship Matters

As previously advised to shareholders Mr Peter Williams was appointed as a Director of the Company, effective 3 February 2010. Peter was Managing Director of Equity Trustees Limited from 2003 until his retirement in February 2010. He has over 40 years experience in the financial services industry. Prior to joining Equity Trustees Limited, he was General Manager, Superannuation and Portfolio Services at Perpetual Limited and before that was General Manager and Chief Executive Officer of AXA Trustees Ltd.

He has broad experience in investments, insurance and superannuation and his depth of relevant business experience is a valuable addition to the Board.

INCOME STATEMENT
For the Year Ended 30 June 2010

	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
Net (losses)/gains on trading portfolio (including unrealised gains)	7,967	(12,548)
Total income	202,907	218,126
Finance costs	(4,223)	(3,812)
Administration expenses	(11,105)	(11,282)
Operating profit before income tax	187,579	203,032
Income tax	(8,118)	(3,480)
Net operating profit	179,461	199,552
Net capital gains/(losses) on investment portfolio		
Net gains/(losses) on ordinary securities sold from the investment portfolio	(13)	16,702
Net gains/(losses) on other securities	6,829	(3,614)
Tax expense on above	(2,524)	(4,213)
	4,292	8,875
Profit for the year	183,753	208,427

	Cents	Cents
Net operating profit per share	18.18	20.45
Profit for the year per share	18.62	21.36

BALANCE SHEET

As at 30 June 2010

	2010 $'000	2009 $'000
Current assets		
Cash	115,226	249,108
Receivables	31,706	28,371
Trading portfolio	67,108	24,064
Tax overpayment receivable	-	7,433
Total current assets	214,040	308,976
Non-current assets		
Fixtures and fittings	596	726
Investment portfolio	4,368,980	3,770,906
Deferred tax assets	833	-
Total non-current assets	4,370,409	3,771,632
Total assets	4,584,449	4,080,608
Current liabilities		
Payables	3,217	46,547
Tax payable	4,564	-
Borrowings	50,000	50,000
Provisions	1,739	1,874
Interest rate hedging contracts	551	1,455
Total current liabilities	60,071	99,876
Non-current liabilities		
Provisions	589	404
Deferred tax liabilities – investment portfolio	546,821	419,492
Deferred tax liabilities – other	-	274
Total non-current liabilities	547,410	420,170
Total liabilities	607,481	520,046
Net assets	3,976,968	3,560,562
Shareholders' equity		
Share capital	1,866,048	1,737,840
Revaluation reserve	1,322,485	1,012,034
Realised capital gains reserve	337,277	354,278
General reserve	23,637	23,637
Interest rate hedging reserve	(551)	(1,455)
Retained profits	428,072	434,228
Total shareholders' equity (including minority interests)	3,976,968	3,560,562

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2010

	2010 $'000	2009 $'000
Total equity at the beginning of the year	3,560,562	4,253,083
Dividends paid	(206,189)	(204,033)
Shares issued		
- Dividend Reinvestment Plan	45,291	44,795
- Share Acquisition Plan	83,031	-
On-market share buy-backs	-	(14)
Other share capital adjustments	(114)	101
Total transactions with shareholders	(77,981)	(159,151)
Revaluation of investment portfolio	430,867	(1,040,144)
Provision for tax on unrealised gains	(125,196)	301,511
Net unrealised gains on investment portfolio	305,671	(738,633)
Net movement in fair value for interest rate swaps	904	(3,164)
Capital gains through profit	4,292	8,875
Capital gains not through profit	4,059	-
Net operating profit for the year	179,461	199,552
Total equity at the end of the year	3,976,968	3,560,562

HOLDINGS OF SECURITIES

At 30 June 2010

Individual investments for the combined Investment and trading portfolios as at 30 June 2010 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website www.afi.com.au

Individual holdings in the portfolios may change during the course of the year. In addition, holdings which are part of the trading portfolio may be subject to call options sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
AGK	AGL Energy	4,287	4,287	63,019
AIX	Australian Infrastructure Fund	27,784	32,653	55,510
AMC	Amcor	10,066	12,624	80,539
AMP*	AMP	10,331	10,768	56,083
ANZ*	Australia and New Zealand Banking Group	6,312	7,010	151,138
APN	APN News & Media	11,825	10,479	20,802
ASZ	ASG Group	5,638	5,902	8,293
AWC	Alumina	14,323	14,323	21,843
AXA	AXA Asia Pacific Holdings	7,950	8,124	44,440
BHP*	BHP Billiton	14,257	14,277	537,475
BKN	Bradken	5,964	6,079	43,768
BKW	Brickworks	1,478	1,478	17,662
BLD	Boral	3,810	3,810	18,366
BXB	Brambles	7,688	8,675	47,366
CBA	Commonwealth Bank of Australia	8,473	8,473	412,122
CCL*	Coca-Cola Amatil	3,821	4,296	51,065
CFX	CFS Retail Property Trust	18,730	20,099	37,987
CPA	Commonwealth Property Office Fund	26,475	26,475	24,622
CPB	Campbell Brothers	514	725	21,859
CPU	Computershare	8,156	8,156	86,539
CRG	Crane Group	156	161	1,293
CSL	CSL	197	217	7,065

HOLDINGS OF SECURITIES continued

At 30 June 2010

For personal use only

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
CSR	CSR	6,244	7,337	12,326
CWP	Cedar Woods Properties	3,518	3,630	8,894
CYG	Coventry Group	1,650	1,650	3,053
DJW	Djerriwarrh Investments	8,597	8,597	33,870
DUI	Diversified United Investment	12,030	12,030	34,767
EQT	Equity Trustees	580	647	9,828
ESG	Eastern Star Gas	0	10,900	8,993
FGL	Foster's Group	6,527	6,527	36,874
FWD	Fleetwood Corporation	735	735	6,758
FXJ	Fairfax Media	9,705	9,705	12,762
GUD	GUD Holdings	2,000	2,260	19,548
GWT	GWA International	6,681	6,681	20,110
HDF	Hastings Diversified Utilities Fund	4,734	22,103	28,071
HIL	Hills Industries	4,262	4,262	9,163
HSP	Healthscope	542	1,558	8,086
IAG	Insurance Australia Group	2,000	2,500	8,525
ILU	Iluka Resources	1,390	1,390	6,463
IPL	Incitec Pivot	17,939	18,079	49,357
IRE	Iress Market Technology	1,037	1,037	9,010
MIR	Mirrabooka Investments	8,546	8,546	14,486
MLT	Milton Corporation	2,881	2,881	46,032
MTS	Metcash	4,500	4,750	19,902
NAB	National Australia Bank	8,435	8,789	204,598
NUF	Nufarm	2,676	2,538	13,677
OKN	Oakton	1,945	1,945	4,668
ORG*	Origin Energy	4,854	5,249	78,312
ORI	Orica	2,509	2,509	63,229
OSH*	Oil Search	11,954	14,055	77,689
OST*	OneSteel	2,059	2,302	6,852
PPC	Peet	11,184	11,184	23,598
PPT	Perpetual	500	837	23,659
PRG	Programmed Maintenance Services	1,363	1,363	3,393
QBE*	QBE Insurance Group	3,925	4,621	84,108

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
RHC	Ramsay Health Care	318	686	9,637
RIO	Rio Tinto	2,343	3,574	238,223
SHL	Sonic Healthcare	154	154	1,604
STO	Santos	6,718	6,853	86,346
TCL*	Transurban Group	9,556	14,877	63,024
TGG	Templeton Global Growth Fund	7,900	7,900	6,004
TLS	Telstra Corporation	48,820	50,070	162,727
TOL	Toll Holdings	8,000	8,133	44,566
TOX	Tox Free Solutions	5,196	6,199	14,568
TRU	Trust Company of Australia	696	1,556	8,591
WAN	West Australian Newspapers Holdings	7,921	8,046	52,622
WBC	Westpac Banking Corporation	17,699	18,236	387,155
WDC*	Westfield Group	3,987	4,483	54,550
WES	Wesfarmers	6,166	6,166	176,654
WESN	Wesfarmers PPS	1,400	1,400	40,309
WOW	Woolworths	6,204	6,204	167,625
WPL	Woodside Petroleum	2,381	2,610	109,183
Total				4,422,906

* Investments marked with an asterisk were the subject of options, either for the whole holding in the trading portfolio or part of it.

HOLDINGS OF SECURITIES continued

At 30 June 2010

Convertible Notes, Preference Shares and Other Interest Bearing Securities		Number Held 2009 '000	Number Held 2010 '000	Market Value 2010 $'000
NABHA	National Australia Bank Income Securities	30	30	2,256
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	10,926
Total				13,182

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $5 Million)	Total Cost $'000
Transurban Group	21,161
Hastings Diversified Utilities Fund	15,632
Oil Search	12,317
Amcor	11,000
Perpetual	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
Campbell Brothers	5,279

Disposals (Above $5 Million)	Total Proceeds $'000
Santos FUELS[(a)]	13,152
Nufarm	7,859

(a) Redeemed by the Company.

MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

Net Acquisitions (Above $2 Million)	Total Cost $'000
ANZ Banking Group	9,229
QBE Insurance Group	6,350
Origin Energy	5,464
Telstra Corporation	4,338
Coca-Cola Amatil	4,285
Transurban Group	3,332
Westfield Group	2,999
AMP	2,506
Insurance Australia Group	2,003

Net Disposals (Above $2 Million)	Total Proceeds $'000
APN News & Media	2,494

Note: These items are the net movements in the trading portfolio where there were both purchases and sales during the year.

COMPANY PARTICULARS

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

AFIC is a listed investment company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

Directors
Bruce B Teele, Chairman
Donald R Argus AC
Ross E Barker, Managing Director
Terrence A Campbell AO,
Deputy Chairman
John Paterson
Fergus D Ryan
Catherine M Walter AM
Peter J Williams

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office
Level 21, 101 Collins Street
Melbourne Victoria 3000

Mail Address
GPO Box 2114
Melbourne Victoria 3001

Contact Details

Telephone	(03) 9650 9911
Facsimile	(03) 9650 9100
Email	invest@afi.com.au
Website	www.afi.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange):

Telephone	1800 780 784 (toll free)

Share Registrar
Computershare Investor Services Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Shareholder Enquiry Lines	1300 662 270 (Australia) 0800 333 501 (New Zealand) +613 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Email	web.queries@computershare.com.au
Website	www.computershare.com.au

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar in your country.

Securities Exchange Code

AFI	Ordinary shares

SHAREHOLDER MEETINGS

Annual General Meeting

Time	10.00am
Date	Monday 4 October 2010
Venue	Hilton on the Park
Location	192 Wellington Parade East Melbourne

Sydney Meeting

Time	10.00am
Date	Monday 11 October 2010
Venue	Four Seasons Hotel
Location	199 George Street Sydney

Adelaide Meeting

Time	10.00am
Date	Monday 18 October 2010
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

NOTICE OF ANNUAL GENERAL MEETING 2010

The Annual General Meeting of Australian Foundation Investment Company Limited **(the Company)** will be held in the Grand Ballroom, Hilton on the Park, 192 Wellington Parade, East Melbourne, Victoria at **10.00am (AEDT)** on **Monday 4 October 2010**.

The Company has determined that, for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register at **7.00pm (AEST)** on **Saturday 2 October 2010**.

<u>BUSINESS OF THE MEETING</u>

1. FINANCIAL STATEMENTS AND REPORTS

To consider the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2010.

(Note that no resolution will be required to be passed on this matter)

2. ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution (as an ordinary resolution):

"That the Remuneration Report for the financial year ended 30 June 2010 be adopted."

(Please note that the vote on this item is advisory only and does not bind the Directors or the Company)

3. ELECTION OF DIRECTOR

To consider and, if thought fit, to pass the following resolution (as an ordinary resolution):

"That Mr Peter Williams, a Director appointed since the last Annual General Meeting and retiring from office in accordance with Rule 45 of the Constitution, being eligible is elected as a Director of the Company."

4. RE-ELECTION OF DIRECTOR

To consider and, if thought fit, to pass the following resolution (as an ordinary resolution):

"That Mr Don Argus AC, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

5. RE-ELECTION OF DIRECTOR

To consider and, if thought fit, to pass the following resolution (as an ordinary resolution):

"That Mr Bruce Teele, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

By Order of the Board

Simon Pordage
Company Secretary
31 August 2010

EXPLANATORY NOTES

The Explanatory Notes below provide additional information regarding the items of business proposed for the Annual General Meeting.

The Board recommends that shareholders vote in favour of each item of business being proposed at the meeting. The Chairman of the meeting intends to vote undirected proxies in favour of each item of business.

1. FINANCIAL STATEMENTS AND REPORTS
During this item there will be an opportunity for shareholders to ask questions and comment on the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2010. No resolution will be required to be passed on this matter.

Shareholders who have not elected to receive a hard copy of the Company's 2010 Annual Report can view or download it from the Company's website at: **www.afi.com.au/Reports-by-year.aspx**

2. ADOPTION OF REMUNERATION REPORT
During this item there will be an opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which commences on page 10 of the Company's 2010 Annual Report. The vote on the proposed resolution is advisory only and will not bind the Directors or the Company.

ITEMS 3-5. ELECTION AND RE-ELECTION OF DIRECTORS
Relevant details of each Director standing for election or re-election are set out below. Further information regarding the Company's Corporate Governance arrangements and the Board's role can be found in the Company's 2010 Annual Report and on the Company's website at: **www.afi.com.au/Corporate-Governance.aspx**

Mr Peter Williams
Dip.All, MAICD, FAIM. Independent non-executive Director. Member of the Investment Committee.

Mr Williams was appointed a Director of the Company in February 2010. He is Chairman of Olympic Park Sports Medical Centre Pty Ltd and a Director of the Australian Baseball Federation, National Australia Trustees Limited and the Foundation for Young Australians. Mr Williams was formerly Managing Director of Equity Trustees Limited and a Director of the Trustee Corporations Association of Australia.

Mr Don Argus AC
FCPA SF Fin. Independent non-executive Director. Chairman of the Remuneration Committee. Member of the Audit Committee and the Investment Committee.

Mr Argus has been a Director of the Company since 1999 and was last re-elected by shareholders in 2007. Mr Argus is Chairman of the Advisory Board of Bank of America Merrill Lynch Australia. He is a former Chairman of BHP Billiton and Brambles Ltd and a former Director of Southcorp Ltd. He was formerly Managing Director and Chief Executive of National Australia Bank Ltd. He is also a former member of the International Advisory Board of Allianz Aktiengesellschaft and of the International Advisory Committee of the New York Stock Exchange Ltd.

Mr Bruce Teele
BSc BCom (Melb). Chairman and non-executive Director. Chairman of the Investment Committee. Member of the Nomination Committee and the Remuneration Committee.

Mr Teele has been a Director of the Company since 1966, Chairman since 1984 and was last re-elected by shareholders in 2007. He is Chairman of Djerriwarrh Investments Limited and AMCIL Limited and a Director of The Myer Family Company Ltd. He was formerly the Executive Chairman of the JBWere Group.

SHAREHOLDER INFORMATION

Proxies

1. A shareholder entitled to attend and vote at this meeting is entitled to appoint not more than two proxies (who need not be shareholders of the Company) to attend, vote and speak in the shareholder's place and to join in any demand for a poll.

2. Where a shareholder appoints more than one representative, proxy or attorney, those appointees are entitled to vote on a poll but not on a show of hands.

3. A shareholder who appoints two proxies may specify a proportion or number of the shareholder's votes each proxy is appointed to exercise. Where no such specification is made, each proxy may exercise half of the votes (any fractions of votes resulting from this are disregarded).

4. Proxy forms may be lodged online by visiting **www.investorvote.com.au**

5. Relevant custodians may lodge their proxy forms online by visiting **www.intermediaryonline.com**

6. Proxy forms and any authorities (or certified copies of those authorities) under which they are signed may be delivered in person, by mail or by fax to the Company's Share Registry (see details below) no later than 48 hours before the meeting, being **9.00am (AEST)** on **Saturday 2 October 2010.**

Corporate Representatives

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. Unless it has previously been given to the Company, the representative should bring evidence of their appointment to the meeting, together with any authority under which it is signed. The appointment must comply with section 250D of the Corporations Act 2001.

Attorneys

A shareholder may appoint an attorney to vote on their behalf. To be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the deadline for the receipt of proxy forms (see above), being no later than 48 hours before the meeting.

Share Registry

The Company's Share Registry details are as follows:

Computershare Investor Services Pty Limited

Street address: Yarra Falls 452 Johnston Street Abbotsford VIC 3067	Postal address: GPO Box 242 Melbourne VIC 3001
Telephone:	1300 662 270 (within Australia) 0800 333 501 (within New Zealand) +61 3 9415 4373 (outside Australia)
Facsimile:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)
Email enquiries:	web.queries@computershare.com.au

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

Lodge your proxy:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

In Person:
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online users only (Custodians)
www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 662 270
(within New Zealand) 0800 333 501
(outside Australia) +61 3 9415 4373

Email: web.queries@computershare.com.au

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form

Appoint your proxy online or view the 2010 Annual Report, 24 hours a day, 7 days a week:
www.investorvote.com.au

☑ **Appoint your proxy to vote**
☑ **Access the 2010 Annual Report**
☑ **Review and update your shareholding**

Your secure access information is:

Control Number: 999999

SRN/HIN: I9999999999 **PIN:** 99999

PLEASE NOTE: For security reasons it is very important that you keep your SRN/HIN confidential. If appointing your proxy online, please dispose of this form carefully.

For your proxy form to be effective it must be received by 9.00am (AEST) on Saturday 2 October 2010

How to direct your proxy to vote

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

A proxy need not be a shareholder of the Company.

Lodgement of a proxy

This proxy form (and any authority under which it is signed or a certified copy of it) must be received at an address given above by 9.00am (AEST) on Saturday 2 October 2010, being not later than 48 hours before the commencement of the meeting. Any proxy form received after that time will not be valid for the scheduled meeting.

Signing instructions for postal forms

Individual: Where the holding is in one name, the shareholder or attorney must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders or attorneys should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the meeting

If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at **www.computershare.com.**

Comments & Questions: If you have any comments or questions for the Company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO APPOINT YOUR PROXY, or turn over to complete the form →

119331_00ZYNB

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Shareholders sponsored by a broker (reference number commences with '**X**') should advise their broker of any changes.

I 9999999999 IND

Proxy Form

Please mark X to indicate your directions

STEP 1 Appoint a proxy to vote on your behalf

XX

I/We being a shareholder/s of Australian Foundation Investment Company Limited hereby appoint

the Chairman of the meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of **Australian Foundation Investment Company Limited** to be held at **Hilton on the Park in the Grand Ballroom, 192 Wellington Parade, East Melbourne, Victoria, at 10.00am (AEDT) on Monday 4 October 2010** and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority

		For	Against	Abstain
2	Adoption of the Remuneration Report (non-binding resolution)			
3	Election of Director – Mr Peter Williams			
4	Re-election of Director – Mr Don Argus AC			
5	Re-election of Director – Mr Bruce Teele			

Board recommendations and undirected proxies: The Board recommends shareholders vote in favour of each item of business. The Chairman of the meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Shareholder(s) *This section must be completed.*

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________________ Contact Daytime Telephone ____________________ Date ___ / ___ / ___