

Key Measures

Value	Company	Market	Sector
Earnings Model	--	0.64	0.63
P/E Ratio	8.95	6.45	6.67
P/B Ratio	0.88	0.63	0.61
P/E Growth Ratio	--	0.65	10.00
Risk			
Beta	1.10	0.98	1.42
Share Price Volatility	--	--	--
Income			
Dividend yield	5.4%	8.6%	9.4%
Franking	100.0%	--	--
Tax adj div yield	4.3%	6.6%	6.7%
Dividend stability	100.0%	0.0%	97.9%
Growth Rates			
	10yr	5yr	1yr 2yr Fcast
Income	--	28.1%	72.2%
Cashflow	2.0%	10.9%	-3.1%
Earnings	14.5%	27.3%	57.4%
Dividends	7.2%	8.5%	--
Book Value	5.7%	7.4%	-11.6%

Balance Sheet (\$ Mil.)

	2006	2007	2008
Cash	1	10	261
Receivables	42	38	44
Investments	102	129	127
Other Current Assets	0	1	2
Total Current Assets	144	178	433
Investments	4,411	5,672	4,662
Property	0	0	0
Other Non Current Assets	1	1	5
Total Non Current Assets	4,412	5,673	4,668
Total Assets	4,556	5,851	5,101
Accounts Payable	4	11	3
Provisions	15	12	73
Other Current Liabilities	41	50	50
Total Current Liabilities	60	73	125
Borrowings	0	0	0
Deferred Tax	683	1,018	723
Other Non Current Liabilities	0	0	0
Total Non Current Liabilities	683	1,018	723
Total Liabilities	743	1,091	848
Shareholder Equity (Book Value)	3,813	4,760	4,253

Liquidity

	2007	2008	2009
Avg buy sell spread	0.7%	0.7%	0.7%
Annual turnover	6.6%	8.0%	6.8%
Top 20 sh/holder o/ship	6.9%	7.0%	--%

Investment Portfolio Analysis

Stock	Aspect	
	2007	Value Rank
	2.7	--
	54.0	--
ANZ Bank	2.4	3
BHP Billiton	8.6	4
Commonwealth Bank	7.4	3
National Aust. Bank	4.8	4
Rio Tinto	4.3	3
Telstra	3.5	3
Wesfarmers	3.9	3
Westpac	5.4	3
Woolworths	2.9	4

Interim Data

Earnings per share (cents)			
Period ending	1st Half	2nd Half	Full Year
2009-06-30	11.2	--	--
2008-06-30	33.9	9.25	43.1
Dividends per share (cents)			
2009-06-30	8.0	--	--
2008-06-30	8.0	13.0	21.0
Most recent dividend payment dates			
	Interim	Final	
Ex dividend date	10 February, 2009	05 August, 2008	
Div pay date	02 March, 2009	25 August, 2008	

Value NR Growth 3 Risk 3 Income 3

Not ranked Average Average Average



Last Price	\$3.86
P/E Ratio	8.95
GICS Sector	Financials
Market Cap	\$3,764m

Ann'l Shareholder Return	
1 yr	-24.3%
3 yr	-3.3%
5 yr	7.7%
10 yr	7.8%

6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	Per Share Statistics		
0.13	0.17	0.17	0.14	0.15	0.15	0.19	0.26	0.28	0.55	Investment Inc (\$)		
0.16	0.04	0.13	0.14	0.12	0.04	0.22	0.19	0.20	0.19	Cash flow (\$)		
12.7	14.3	14.0	11.3	12.9	14.3	17.5	23.1	27.4	43.1	Earnings (cents)	--	--
11.3	12.0	14.0	14.0	14.0	14.2	16.0	17.0	21.0	21.0	Dividends (cents)	--	--
100	100	100	100	86	100	100	100	100	100	Franking (%)		
--	--	--	--	--	--	--	-0.00	--	-0.00	Capital Spending		
2.67	2.76	3.13	3.08	3.06	3.47	4.15	4.09	4.96	4.39	Book value		
718	727	753	788	809	900	909	932	960	969	Shares outstanding (m)		
11.8	-7.83	40.8	0.60	13.4	0.89	17.8	29.4	25.3	-7.65	Total Return (%)		
-2.30	-24.6	32.0	5.11	14.5	-21.5	-6.91	5.18	-4.99	4.47	+/- Market (%)		
--	--	--	--	--	--	--	--	--	--	+/- Industry Sector (%)		
161	143	136	195	185	163	137	135	129	86.0	Relative P/E (%)		
1.06	0.91	1.05	1.05	1.14	0.96	0.90	1.14	1.14	1.14	Price/NAB ratio		
88.36	123.07	125.08	105.68	122.06	129.95	174.60	238.94	267.86	534.24	Investment Income (\$ million)		
15.76	0.83	0.62	0.84	0.73	0.83	1.00	1.25	1.66	2.99	Other Income (\$ million)		
0.16	0.16	0.14	0.14	0.20	0.17	0.13	0.13	0.16	0.14	Management Expense Ratio (%)		
87.9	103	104	86.4	103	124	159	214	259	416	Net Profit Before Abnormals (\$ million)		
93.7	103	104	86.4	103	124	159	214	259	416	Net Profit (\$ million)		
1,916	2,009	2,356	2,430	2,479	3,124	3,773	3,813	4,760	4,253	Shareholders Equity (\$ million)		
4.59	5.14	4.42	3.56	4.15	3.98	4.21	5.61	5.45	9.78	Return on Equity (%)		
89	84	99	124	108	99	91	73	77	49	Payout Ratio (%)		

BUSINESS DESCRIPTION

Australian Foundation Investment Company (AFI) holds a diversified portfolio of Australian stocks. The market value of the total portfolio (including cash and bank bills) as at 30 Jun 2008 was \$3.7bn.

STRATEGY ANALYSIS

AFI seeks to identify stocks that have superior value and long-term sustainable earnings growth prospects. A bottom up approach first screens the universe using traditional valuation metrics such as PE multiples and Dividend Yield - a high value relative to market for the latter is critical for potential investment. Companies that pass the initial review are subjected to extensive qualitative assessment of balance sheet and management strength, and business strategy soundness. Reliance is mainly placed on broker research for detailed financial analysis, especially modelling, freeing AFI's own staff's time for extensive company contact as the main basis for determining business quality/sustainability and earnings generation capacity. The breadth of industry experience and corporate connections of an actively involved IC gives AFI a competitive edge in making these assessments. AFI also runs a trading portfolio, limited to 10% of overall assets, that permits it take advantage of short-term opportunities that arise, including through writing call options against holdings. AFI has a somewhat stronger sell discipline than often found in buy-and-hold investors, apparently being prepared to remove a stock reasonably quickly should its view of it fundamentally change. Moreover, the trading component allows it to reduce holdings at the margin quickly. AFI typically holds 80 100 stocks and has an annual turnover of 5-10%, increasing the attraction for tax conscious investors.

(Last Updated: 23/10/08)

Australian Foundation Investment Company	Tel: (03) 9650 9911	Fax: (03) 9650 9100	Chairman: Bruce Teele,
ABN: 004 147 120	Web: www.afi.com.au		MD: Ross Barker,
Level 21, 101 Collins St	Dividend Reinvestment? Yes		
Melbourne, VIC 3000	Shareholder Discounts: No		