

17 January 2017

The Manager
ASX Market Announcements
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Australian Foundation
Investment Company Limited
ABN 56 004 147 120
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Melbourne VIC 3000
T 03 9650 9911
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Electronic Lodgement

**Australian Foundation Investment Company Limited
Letter to AFIC Noteholders**

Dear Sir / Madam

Please find attached a letter and exit notice regarding the maturity of the AFIC Unsecured Convertible Notes which has been sent to noteholders today.

Yours faithfully,



Matthew Rowe
Company Secretary

17 January 2017

AFI
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

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ABN 56 004 147 120
Level 21, 101 Collins St
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**Australian Foundation Investment Company Limited
Redemption of the AFIC Notes**

Dear Noteholder,

I am writing to you as a current holder of [x,xxx] Unsecured, Convertible Notes (**AFIC Notes**) issued by Australian Foundation Investment Company Limited (**AFIC** or the **Company**). The AFIC Notes are due to mature on 28 February 2017 (**Maturity Date**) pursuant to section 7.1 of the Terms of the Issue of the AFIC Notes set out in the Prospectus lodged with ASIC on 14 November 2011 (**Prospectus**).

This letter outlines key information and dates regarding your noteholding. Please note the information provided in this letter is not financial product advice and has been prepared without taking into account your individual investment objectives, financial circumstance or particular needs. If you're unsure of the impact of the information provided below we would suggest that you should seek independent financial and taxation advice from your financial or other professional advisor before deciding what to do with your AFIC Notes.

Convert your AFIC Notes to AFIC Ordinary Shares by completing an Exit Notice

Under the terms of the AFIC Notes, you are entitled to submit the attached Exit Notice to convert some or all of your holding of AFIC Notes into AFIC ordinary shares (**AFIC Shares**).

If you elect to convert any of your AFIC Notes you will receive 19.66 AFIC shares, equivalent to \$5.0864 per share, for every AFIC Note (subject to rounding and pursuant to Section 7 of the Prospectus).

No amount is payable by you on conversion – rather the Face Value of \$100 per AFIC Note is applied in full towards the subscription for AFIC Shares.

You will also be entitled to receive all unpaid and accrued interest up to but excluding the Maturity Date.

Please note that the minimum number of AFIC Notes that can be converted is the lesser of 5 AFIC Notes or the balance of the holder's holding of AFIC Notes. In accordance with the Prospectus once you have lodged an Exit Notice you must not deal, transfer, dispose or encumber any AFIC Notes that were the subject of the Exit Notice.

The share price of AFIC shares (ASX:AFI) at the 13 January 2017 was \$5.91 per share. The highest market price of AFIC shares during the prior 3 months was \$5.94 on 10 January 2017 and the lowest market price during this period was \$5.65 on 9 November 2016.

If you wish to convert your AFIC Notes to AFIC Shares, you must complete the Exit Notice attached to this letter and return it by post to the Company's Share Registry Computershare Investor Services Pty Limited, GPO Box 52, Melbourne Victoria 3001 Australia or via e-mail to aficnotes@computershare.com.au.

The deadline for receipt of the exit notice is 13 February 2017.

Redemption of your AFIC Notes (Default Option)

Should you take no action the Company will redeem your entire holding of AFIC Notes on the Maturity Date. The Repayment Amount, as set out in the Prospectus, is \$100 per Note (**Face Value**) and will be paid in full along with all unpaid and accrued interest up to but excluding the Maturity Date. The Company will pay the proceeds in accordance with the payment instructions on file.

The AFIC Notes are currently quoted on the ASX under code AFIG. Trading in the AFIC Notes on the ASX will cease from the close of trading on 22 February 2017. AFIC Shares to be issued on the conversion of AFIC Notes (**AFIC New Shares**) will trade on a deferred settlement basis until the issue date of 28 February 2017. Any trades will be subject to normal market terms and conditions and the applicable brokerage charges.

Important Dates

Deadline to convert AFIC Notes to AFIC Shares (by completing an Exit Notice)	13 February 2017
Ex date for final interest payment	17 February 2017
Record Date for final interest payment	20 February 2017
Last Trading Date in AFIC Notes	22 February 2017
AFIC New Shares quoted on a deferred settlement basis	23 February 2017
Maturity Date / Final Interest Payment Date / Conversion Date / Issue Date of AFIC New Shares	28 February 2017

If you have any questions in relation to the above, please do not hesitate to contact Computershare on 1300 662 270.

Yours faithfully



Terry Campbell
Chairman

AFI

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

**Holder Identification Number (HIN) or
Securityholder Reference Number (SRN)**

SRN/HIN: SRN WITHHELD

Use a **black** pen.
Print in **CAPITAL** letters.

A B C

1 2 3

Where a choice is required,
mark the box with an 'X'

X

Instructions to convert your Notes to Ordinary Shares (Exit Notice)

A Exit Notice

I/We, hereby give notice to convert 6.25% unsecured convertible notes (AFIC Notes)
into ordinary fully paid shares of the issuer, pursuant to the AFIC Notes Trust Deed and the terms and conditions of the AFIC Notes.

I/We, apply for such number of fully paid ordinary shares in the capital of Australian Foundation Investment Company Limited (AFIC) as is equal to the number of ordinary shares that the note holder is entitled to upon conversion, as calculated in accordance with the terms and conditions of the AFIC Notes.

Important Notice: Minimum number of AFIC Notes that can be converted is the lesser of 5 AFIC Notes or the balance of the holder's holding of AFIC Notes.

B Contact Details

Please provide your contact details in case we need to speak to you about this form

Name of contact person

Contact person's daytime telephone number

C Sign Here - This section **must** be signed for your instructions to be executed.

I/We authorise you to act in accordance with my/our instructions set out above. I/We acknowledge that these instructions supersede and have priority over all previous instructions in respect to my/our securities. In accordance with AFIC Notes Prospectus a holder must not deal, transfer, dispose of or encumber any AFIC Notes the subject of an Exit Notice once that Exit Notice has been given.

Individual or Securityholder 1

Director

Securityholder 2

Director/Company Secretary

Securityholder 3

Sole Director and Sole Company Secretary

Note: When signed under Power of Attorney, the attorney states that they have not received a notice of revocation. Computershare Investor Services Pty Limited needs to sight a certified copy of the Power of Attorney.

Day Month Year

Convertible Notes Terms and Conditions

This is a summary of the material terms of the AFIC Notes and should be read in conjunction with the Terms of Issue in section 7 of the prospectus lodged with ASIC on 14 November 2011.

Issuer	Australian Foundation Investment Company Limited (ABN 56 004 147 120)
Trustee	Australian Executor Trustees Limited (ABN 84 007 869 794)
Issue Price	\$100 per Note
Issue Date	19 December 2011
Maturity Date	28 February 2017 (unless earlier converted or redeemed) upon which date AFIC will pay face value for each unconverted AFIC Note.
Term	From the Issue Date until 28 February 2017, unless earlier converted into Ordinary Shares or redeemed.
Interest Rate	<p>The AFIC Notes will bear interest at a rate of 6.25 per cent per annum on the face value of the AFIC Note accruing from the Issue Date and payable in arrears on each Interest Payment Date unless earlier converted into Ordinary Shares.</p> <p>Interest on AFIC Notes converted into Ordinary Shares will be paid up until the date the AFIC Notes are converted.</p>
Interest Payment Dates	First payment on 28 February 2012 (for the period from the Issue Date to 27 February 2012) and then on 31 August and 28 February each year until and including the Maturity Date.
Conversion	The AFIC Notes may be converted by holders into Ordinary Shares on 28 February and 31 August of each year from the Issue Date of the AFIC Notes to 28 February 2017 (both dates inclusive) and at the occurrence of specified events.
Ranking	Each Ordinary Share issued on conversion will rank in all respects pari passu and form one class with the Ordinary Shares then on issue and be entitled for all dividends declared after the date of conversion (being either 31 August or 28 February).
Participation in New Issues	If there is an offer by AFIC to shareholders to subscribe for securities of AFIC (except for a dividend reinvestment plan, like arrangement or a share purchase plan) prior to the Maturity Date, the offer will be extended to each note holder (so far as it is lawful to do so).
Voting	Note holders may not vote at meetings of members of AFIC unless provided for by the ASX Listing Rules or the Corporations Act.

Exit Notices must be received by the Company at least 15 days prior to the relevant Interest Payment Date

Computershare Investor Services Pty Limited
GPO Box 52
Melbourne Victoria 3001
Australia

Private Bag 92119
Auckland 1142
New Zealand

Please return the completed form to one of the addresses opposite:

