



Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4D STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2003 with the previous corresponding period being the half-year ended 31 December 2002.

Results for announcement to the market

- Revenue from ordinary activities was \$66.6 million 22.2% up from the previous corresponding period.
- Profit from ordinary activities after tax was \$59.3 million, 18.6% up from the previous corresponding period
- Net profit attributable to members was \$59.3 million, 18.6% up from the previous corresponding period.
- The final dividend for the 2003 financial year was 8.75 cents per share, fully franked, including 1 cent of special dividend, and it was paid to shareholders on 15 August 2003.
- The interim dividend is 5.5 cents per share, fully franked, which includes a one cent special dividend from passing through to shareholders the special dividends received from Western Mining and CSR as a result of their respective demergers last year. It will be paid on 12 March 2004 to ordinary shareholders on the register on 20 February 2004. New shares issued in the recent 1 for 8 rights issue do not rank for the interim dividend, but will rank fully for all subsequent dividends.
- Net asset backing as at 31 December 2003 was \$3.28, up from \$3.01 at the end of the previous corresponding period.
- Successful completion of a 1 for 8 rights issue raising \$298 million after costs.
- The Company operates a Dividend Reinvestment Plan under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days from the day the shares begin trading on an ex-dividend basis. The last day for the receipt of an election notice for participation in the plan is 20 February 2004.



MEDIA RELEASE

HALF YEARLY RESULT

11 February 2004

PROFIT UP 18.6% AS MARKETS GROW STRONGLY

Australian Foundation Investment Company announced today its financial results for the half year to 31 December 2003 with profit up 18.6% to \$59.3 million, compared with last year's interim profit of \$50.0 million.

The Chairman, Mr Bruce Teele commented, "We have enjoyed strong equity markets in the second half of year. We have benefited from a higher level of dividends from companies in which we invest and increased interest income from our cash holdings associated with the Company's rights issue of \$298 million completed in October 2003. In addition, the more buoyant market conditions allowed us to generate increased income through our trading portfolio.

During the period we have looked for opportunities to invest in companies that we believe offer value over the medium to long term. At various stages during the six months to 31 December 2003 we were able to add to our holdings, particularly in the Banking, Resources and Infrastructure Sectors. In looking to the second half we have cash resources of around \$190 million to potentially fund other suitable investment opportunities".

SUMMARY OF RESULTS

- Profit after tax was \$59.3 million (last year \$50.0 million including a special dividend of \$1.4 million from the demerger of Western Mining), up 18.6%.
- Earnings per share was 7.0 cents¹, an increase of 9.3% over 6.4 cents last year.
- A fully franked interim dividend of 5.5 cents per share will be paid on 12 March 2004, which includes a one cent special dividend from passing through to shareholders the special dividends received from Western Mining and CSR as a result of their respective demergers last year.
- Total portfolio return during the half (measured by change in net asset backing per share plus dividend) was an increase of 10.2% after tax and management fees. The S&P/ASX 200 Accumulation Index increased by 11.3%.
- Total shareholder return measured by change in share price plus dividends over the six month period was down 1.4%.
- Management expense ratio on an annualised basis was 0.17% (net of administration fees recovered from other Investment Companies)
- Net asset backing at 31 December 2003 was \$3.28 (before allowing for the 5.5 cent interim dividend). At 31 January 2004 the net asset backing was \$3.28 also before allowing for the interim dividend.
- Total portfolio (including cash and bank bills) at 31 December 2003 was \$2.95 billion.

¹ Diluted earnings per share adjusted for the new ordinary shares issued in the 1 for 8 rights issue of October 2003.

Profit Performance and Dividends

An excellent result was achieved for the 6 months to 31 December 2003 with reported profit up by 18.6% and earnings per share increasing by over 9% compared with last year's corresponding period.

The primary contributors to the strong rise in profit were a positive return from the trading portfolio of \$5.2 million as compared to the last corresponding period return of negative \$0.8 million, as well as a significant increase in franked dividends received, up \$4.5 million, and interest on deposits, up \$1.7 million. Part of these dividend and interest increases arose from the additional capital raised by the Company during the past 6 months.

Directors have declared an interim dividend of 5.5 cents per share fully franked, payable on 12 March 2004, which includes a one cent special dividend from passing through to shareholders the special dividends received from Western Mining and CSR as a result of their respective demergers last year. Shares issued in the rights issue of October 2003 do not rank for this interim dividend but will rank for all dividends thereafter.

Trading Portfolio

Over the past few years the softness in the market has meant that the Company had substantially reduced activities in its trading portfolio. The Board's general policy towards its trading portfolio is that it does not exceed 10% of the total portfolio. However, market conditions over recent years have led the Board to operate the trading portfolio at a significantly lower level of the total portfolio.

The improvement in the outlook in past 6 months has meant that returns from the trading portfolio are positive once again. In the 6 months to 31 December 2003, the contribution to profit from the trading portfolio, including dividends, option premium and profits on sale of securities was \$5.2 million. At the end of this period the trading portfolio represented 4.7% of the Company's total portfolio.

Comments on the Market and Investment Approach

The general conditions in the market during the 6 months were positive after three years of flat or negative returns. The improvement in the market as measured by the S&P/ASX 200 Accumulation Index, which incorporates both price movements and dividends, showed a very healthy return of 11.3% for the half year. In June 2003 this measure had been showing a one year decline of 1.7% and the average annual growth rate over the three years to June 2003 had been only 0.7% pa.

The market performance varied significantly across different sectors, for example, the return from Banks for the 6 months, as measured by the S&P/ASX 200 Banks Accumulation Index, was a decline of 1.8%. On the other hand, stocks in sectors such as energy, materials and insurance were strongly up.

AFIC's portfolio performance over this period as measured by growth in net asset backing plus dividends paid was 10.2%, below the S&P/ASX 200 Accumulation Index return of 11.3%. AFIC's large holdings in banks and its traditional underweight position in resource stocks have, in the current period, slightly dampened its performance.

It should be noted Accumulation Index returns for the market, against which we compare AFIC's relative performance, do not include the negative impact of expenses and tax on their performance. Further, any performance comparison makes no allowance for the enhanced return AFIC shareholders receive from the distribution of franking credits.

Investment Portfolio

The value of the Investment Portfolio increased \$145.9 million during the six month period compared with a decline of \$157.1 million during the corresponding six month period last year. The key positive contributors to AFIC's performance in the December half were BHP Billiton, Wesfarmers, Alumina, Toll Holdings and the Rinker Group.

Major acquisitions to 31 December 2003 included \$65.3 million in the Commonwealth Bank, \$17.5 million in Woolworths, \$14.6 million in Telstra, \$12.8 million in AGL and \$12.7 million in Rio Tinto.

During the period under review AFIC disposed of \$18.6 million in United Energy and \$11.2 million in Bank of Western Australia, both as a result of compulsory acquisition under a scheme of arrangement.

As at 31 December 2003 the value of the Company's investment and trading portfolios at market value, including cash, was \$2.95 billion.

Capital Changes

During the half year the Company raised additional capital through its Dividend Reinvestment Plan and a 1 for 8 renounceable rights issue of new shares.

As a result of the reinvestment of dividends 5.08 million new shares were issued at a price of \$3.47, raising \$17.6 million of additional capital. The rights issue resulted in the issue of 99.8 million new shares at a price of \$3.00 per share, raising \$298 million after costs. Shares issued as a result of the new issue do not participate in the interim dividend to be paid in March 2004, but do rank fully thereafter. Allowing for the costs of the issue the net increase in issued capital was \$316.1 million during the half year.

Outlook

The improvement in economic conditions in Europe, Asia and the United States has provided encouragement to global equity markets and seems set to continue in the second half of the financial year on the back of encouraging expectations of corporate earnings growth.

In this environment Australia has been continuing to experience strong economic performance. Buoyancy in some property markets and a substantial increase in consumer debt have, however, been of concern to the Reserve Bank. This has led it to tighten interest rates, with the cash rate having twice risen by 0.25% since November 2003. There is the possibility of further rate rises in 2004. A continuation of interest rate rises in Australia and the effect on both the debt financing capacity of individuals and its flow on in property and other markets could dent the current optimism.

Another major issue for the Australian economy is the strong rise in our dollar, particularly relative to the US dollar and the negative impact that this has on exporters (although it is generally favourable for importers).

The economic state of the United States is also of key importance to a continuation of global economic recovery. Concerns about the US economy particularly focus on its large trade deficit and Government budget deficits (both State and Federal). None of these can be quickly fixed and with 2004 being a Presidential election year it is unlikely that strong action to counter these imbalances will occur soon. Other concerns relate to the strong decline in the US dollar, rising sentiment toward trade protectionism there and the impact that these two may have on global trading flows.

Despite these concerns, the current prevailing view in the market is that the global economy is set to recover and strengthen further in 2004. Providing that the Australian dollar does not rise significantly from its current level, the resources and related sectors of our economy should have a particularly strong performance. In this context, the enormous demand for resources being generated by China's continued strong economic growth is likely to underpin these sectors for some time.

Unless there is some unforeseen terrorist event or other unexpected economic shock, the market is viewing the next six months positively.

The Company has around \$190 million of cash to invest and will be looking for opportunities to pick up quality stocks at prices that represent value to a medium to long term investor such as AFIC.

Please direct any enquiries to:

Bruce Teele
Chairman
(03) 9679 1361

Ross Barker
Managing Director
(03) 9924 0380

Geoff Driver
General Manager
(03) 9679 1659

TOP INVESTMENTS AS AT 31 DECEMBER 2003

Includes investments held in both the Investment and Trading Portfolios

Top 20 Investments - Ordinary Securities

Valued at closing prices at 31 December 2003

Total Value

\$ million

1	NAB	National Australia Bank	232.3	
*	2	CBA	Commonwealth Bank of Australia	206.7
*	3	WBC	Westpac Banking Corporation	191.9
	4	WES	Wesfarmers	130.0
*	5	BHP	BHP Billiton	114.4
*	6	TLS	Telstra Corporation	102.2
*	7	ANZ	Australia & New Zealand Banking Group	101.8
*	8	AMC	Amcor	81.1
	9	TOL	Toll Holdings	66.0
	10	CML	Coles Myer	61.9
*	11	WOW	Woolworths	56.9
*	12	AWC	Alumina	53.3
	13	WAN	West Australian Newspapers Holdings	48.0
*	14	AGL	The Australian Gas Light Company	41.7
	15	RIN	Rinker Group	40.9
	16	MLT	Milton Corporation	39.5
	17	JHX	James Hardie Industries N.V.	38.9
*	18	WPL	Woodside Petroleum	33.0
*	19	BIL	Brambles Industries	32.2
	20	RIO	Rio Tinto	31.6

Total 1,704.3

As % of Total Portfolio Value (\$2,758m)
(excludes Cash & Bank Bills)

61.8%

Top Investments – Preference Shares, Convertible Notes and Income Securities

Total Value

\$ million

1	CMLPA	Coles Myer - 6.5% Reset Convertible Preference shares	51.6
2	NABHA	National Bank - Income Securities	50.9
3	SSXPB	Smorgon Steel Group - 8% Reset Convertible Preference shares	24.9
4	STOPA	Santos - 6.57% Reset Convertible Preference shares	18.8
5	APNG	APN News & Media - 7.25% Unsecured Convertible Notes	18.6
6	CPUPA	Computershare - 5.5% Reset Convertible Preference shares	17.4

Total 182.2

As % of Total Portfolio Value (\$2,758m)
(excludes Cash & Bank Bills)

6.6%

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



Australian Foundation
INVESTMENT COMPANY

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

HALF-YEAR REPORT
31 DECEMBER 2003

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 AO Ross E. Barker, Managing Director Terrence A. Campbell Murray A. Neil John Paterson (alternate for T.A. Campbell) Fergus D. Ryan Stan D.M. Wallis AC Catherine M. Walter AM
Secretary:	Mark A. Licciardo
Auditor:	PricewaterhouseCoopers, Chartered Accountants
Country of incorporation:	Australia
Registered office:	Level 20 101 Collins Street Melbourne, Victoria 3000
Contact Details:	Mail Address: GPO Box 2114S, Melbourne, Victoria 3001 Telephone: (03) 9650 9911 Facsimile: (03) 9650 9100 Email: invest@afi.com.au Internet address: www.afi.com.au For enquiries regarding net asset backing (as advised each month to the Australian Stock Exchange): Telephone: 1800 780 784 (toll free)
Share Registrar:	ASX Perpetual Registrars Limited Mail Address: PO Box 1736, Melbourne, Victoria 3001 4/333 Collins Street, Melbourne, Victoria 3000 AFIC Shareholder enquiry line: 1300 662 270 +613 9615 9127 (from overseas) Facsimile: (03) 9615 9900 Email: registrars@asxperpetual.com.au Internet: www.asxperpetual.com.au
Share Registrar for New Zealand Shareholders:	BK Registries Limited Mail Address: PO Box 384, Ashburton, New Zealand, 8300 138 Tancred Street Ashburton, New Zealand, 8300 Telephone: 0800 835 7872 (toll free) + 64 3 308 8887 Facsimile: + 64 3 308 1311 Email: info@bkregistries.co.nz
Share Registrar	For all enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar in your country.
Stock Exchange Code:	AFI Ordinary shares AFIN Ordinary shares issued in the recent rights issue (do not rank for the forthcoming interim dividend).

DIRECTORS' REPORT

The directors of Australian Foundation Investment Company Limited (the Company) present the following report for the half-year ended 31 December 2003.

1. Directors

The following persons were directors of the Company during the half-year and up to the date of this report:

B.B. Teele
D.R. Argus AO
R.E. Barker
T.A. Campbell
M.A. Neil
J. Paterson (Alternate director for T.A. Campbell)
F.D. Ryan
S.D.M. Wallis AC
C.M. Walter AM

2. Review of the Company's operations and results

Profit performance and Dividend

An excellent result was achieved for the 6 months to 31 December 2003 with reported profit up by 18.6% and earnings per share increasing by over 9% compared with last year's corresponding period.

The primary contributors to the strong rise in profit were a positive return from the Company's trading portfolio, a significant increase in dividends received and interest on deposits. Part of these increases in interest and dividends arose from the additional capital raised by the Company during the past 6 months.

Directors have declared an interim dividend of 5.5 cents per share fully franked, payable on 12 March 2004, which includes a one cent special dividend from passing through to shareholders the special dividends received from Western Mining and CSR as a result of their respective demergers last year. Shares issued in the 1 for 8 rights issue of October 2003 do not rank for this interim dividend but will rank for all dividends thereafter.

Market conditions

The general conditions in the market during the 6 months were positive after three years of flat or negative returns. The improvement in the market as measured by the S&P/ASX 200 Accumulation Index which incorporates both price movements and dividends, showed a very healthy return of 11.3% for the half year. In June 2003 this measure had been showing a one year decline of 1.7% and the average annual growth rate over the three years to June 2003 had been only 0.7% pa.

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AFIC's portfolio performance over the 6 months, as measured by growth in net asset backing plus dividends paid, was 10.2%, below the S&P/ASX 200 Accumulation Index return of 11.3%. AFIC's large holdings in banks and its traditional underweight position in resource stocks have in the current period slightly dampened its performance.

3. Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Unless specifically stated otherwise, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Director
Melbourne
11 February 2004

STATEMENT OF FINANCIAL PERFORMANCE

For Half-year ended 31 December 2003	Notes	2003 \$'000	2002 \$'000
Income from investments, deposits and bank bills		63,169	56,891
Income/(loss) from dealing in securities and derivatives held for trading purposes		2,989	(2,793)
Other Income		414	367
Total income from ordinary activities		66,572	54,465
Borrowing and related expenses		(747)	(602)
Administration expenses		(2,557)	(1,797)
Profit from ordinary activities before income tax expense		63,268	52,066
Income tax expense		(4,008)	(2,108)
Net profit		59,260	49,958
Net increase (decrease) in asset realisation reserve		10,380	8,488
Net increase (decrease) in asset revaluation reserve		145,898	(157,107)
Total valuation adjustments recognised directly in equity		156,278	(148,619)
Total changes in equity other than those resulting from transactions with owners as owners		215,538	(98,661)
		Cents	Cents
Basic earnings per share – Ordinary shares	3	7.44	6.44
Diluted earnings per share – Ordinary shares	3	7.03	-

This statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2003	Note	31 Dec 2003 \$'000	30 June 2003 \$'000	31 Dec 2002 \$'000
Current assets				
Cash		193,372	116,694	66,451
Receivables		4,967	23,481	10,194
Trading securities		128,242	68,455	70,568
Tax refund		3,178	1,991	-
Total current assets		329,759	210,621	147,213
Non-current assets				
Investment securities at market value		2,620,217	2,280,872	2,200,976
Future income tax benefit		1,406	655	5,369
Total non-current assets		2,621,623	2,281,527	2,206,345
Total assets		2,951,382	2,492,148	2,353,558
Current liabilities				
Payables		2,152	10,845	138
Current tax liability		6,486	-	4,181
Provisions		229	60	61
Total current liabilities		8,867	10,905	4,380
Non-current liabilities				
Provisions		768	692	618
Deferred tax liabilities		202	1,137	5,746
Total non-current liabilities		970	1,829	6,364
Total liabilities		9,837	12,734	10,744
Net assets		2,941,545	2,479,414	2,342,814
Shareholders' equity				
Contributed equity	4	1,374,958	1,058,925	1,007,597
Reserves		1,435,968	1,279,690	1,204,543
Retained profits		130,619	140,799	130,674
Total shareholders' equity		2,941,545	2,479,414	2,342,814

This statement should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For Half-year ended 31 December 2003

	2003 INFLOWS/ (OUTFLOWS) \$'000	2002 INFLOWS/ (OUTFLOWS) \$'000
Cash flows from operating activities		
Sales of trading securities	42,941	41,610
Purchases of trading securities	(103,531)	(33,038)
Interest received	5,569	4,188
Dividends received	67,670	64,661
Other distributions received	3,681	3,060
Borrowing and related expenses	(771)	(599)
Income taxes paid	(2,854)	(17,234)
Other payments	(2,439)	(1,952)
Other receipts	414	367
Net cash inflows/(outflows) from operating activities	10,680	61,063
Cash flows from investing activities		
Sales of investment securities	65,291	69,727
Purchases of investment securities	(246,097)	(90,094)
Net cash (outflows)/inflows from investing activities	(180,806)	(20,367)
Cash flows from financing activities		
Proceeds from share issues	298,400	-
Payments for shares bought back	-	(6,235)
Dividends paid	(51,596)	(49,930)
Net cash inflows/(outflows) from financing activities	246,804	(56,165)
Net increase/(decrease) in cash held	76,678	(15,469)
Cash at the beginning of the period	116,694	81,920
Cash at the end of the period	193,372	66,451

This statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

1. Basis of preparation of half-year financial report

This general purpose half-year financial report has been prepared in accordance with Accounting Standard AASB 1029 *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2003 Annual Report and public announcements made by the Company during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. Dividends

	31 Dec 2003 \$'000	31 Dec 2002 \$'000
Dividends provided for or paid during the period	<u>69,440</u>	<u>67,606</u>

Dividends not recognised at period end

Since the end of the half-year the directors have recommended the payment of an interim dividend of 5.5 cents per fully paid ordinary share, excluding those issued in the rights issue of October 2003 (2002: 5.5 cents), franked at 30%. This includes 1 cent of special dividend from passing through to shareholders the special dividends received from Western Mining and CSR as a result of their respective demergers last year. The aggregate amount of the proposed interim dividend expected to be paid on 12 March 2004 (7 March 2003) out of retained profits at 31 December 2003, but not recognised as a liability at the end of the half-year, is

<u>43,904</u>	<u>42,698</u>
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3. Earnings per share

In calculating earnings per share different categories of ordinary shares are deemed to exist where the ordinary shares are entitled to a disproportionate share of the Company's dividends. The earnings allocated to each category are determined by their respective entitlements to the Company's dividends. The Company's ordinary shares have been allocated 100% of the earnings, while the new ordinary shares issued in the recent 1 for 8 rights issue were allocated 0% of the earnings in their respective calculations of basic earnings per share as the new ordinary shares are not entitled to receive the proposed interim dividend expected to be paid on 12 March 2004.

Accordingly the basic earnings per share on the ordinary shares is not adjusted for the capital raised from the new ordinary shares issued in the recent 1 for 8 rights issue.

The diluted earnings per share takes into account the capital raised from issuing new ordinary shares in the recent rights issue from the date of allotment. As such, the diluted earnings per share is the most appropriate earnings per share figure to use in comparisons with the earnings per share reported in prior periods.

4. Movements in Contributed Equity			Number of shares	Paid-up capital
Date	Details	Notes	'000	\$'000
(a) Ordinary shares				
30/06/2003	Opening Balance		793,175	1,058,925
15/08/2003	Dividend Reinvestment Plan	i	5,081	17,633
31/12/2003	Balance		<u>798,256</u>	<u>1,076,558</u>
(b) New ordinary shares				
22/10/2003	Rights Issue	ii	81,583	244,750
31/10/2003	Rights Issue	ii	18,172	54,516
Various	Cost of share issues			(866)
31/12/2003	Balance		<u>99,755</u>	<u>298,400</u>
Total Contributed Equity			<u>898,011</u>	<u>1,374,958</u>

- i The Company operates a Dividend Reinvestment Plan under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days from the day the shares begin trading on an ex-dividend basis. Shares were issued at \$3.47 on 15 August 2003.
- ii On 22 October 2003 and 31 October 2003, the Company allotted shares under the terms of a rights issue prospectus dated 29 August 2003 on the basis of one share for every eight held at 9 September 2003, with an issue price of \$3.00.

The new shares do not rank for the interim dividend expected to be paid on 12 March 2004, but will rank for the final dividend which may be payable for the 2003/2004 financial year and any dividends thereafter.

5. Contingencies

As at balance date the Company had sold put options which at the option of the holders may require the Company to buy prior to the respective expiry dates certain shares at prices which in aggregate total \$12.6 million (2002: \$5.3 million). Any difference between the market price of any shares to be acquired and the exercise price of the options has been included as part of the valuation of the put options. In addition, there were call options outstanding at balance date which potentially required the Company to deliver securities to the value of \$58.8 million (2002: \$63.8 million) held by the Company.

The shareholders of the Company approved the establishment of an Executive Long-Term Incentive Plan and the Remuneration Arrangements for the Managing Director at the 2003 Annual General Meeting.

Following this approval the remuneration of the Managing Director includes a short term incentive component, which is comprised equally of cash and shares in the Company, and is earned with achievement of short term performance targets, as set by the Board. For the financial year ending 30 June 2004 entitlement to the short term incentive component will be \$240,000 if the Company's performance meets set targets and up to \$360,000 if significant out-performance against these targets is achieved. Entitlement to these incentives will be determined at the completion of the financial year when the Company's performance for the period can be measured. The share component of the short term remuneration will require shareholder approval.

Under the Long-Term Incentive Plan shareholders approved the allocation of \$150,000 of shares in the Company to the Managing Director in respect of the financial year ended 30 June 2003. These shares have not yet been awarded. When they are acquired or issued, these shares will be subject to a holding lock of four years and will only vest to the Managing Director in the fifth year if long term performance hurdles are met.

There were no other material contingent liabilities or contingent assets.

6. Financial reporting by segments

The Company operates predominantly in the securities industry in Australia.

7. Events subsequent to balance date

Since 31 December 2003 to the date of this report there has been no event of which the directors are aware which has had a material effect on the Company or its financial position.

DIRECTORS' DECLARATION

The directors' declare that the financial statements and notes set out on pages 4 to 9

- (a) comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 31 December 2003 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director
Melbourne
11 February 2004

Independent review report to the members of

Australian Foundation Investment Company Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Australian Foundation Investment Company Limited

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Australian Foundation Investment Company Limited as at 31 December 2003 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Australian Foundation Investment Company Limited, for the half-year ended 31 December 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers
Chartered Accountants

Simon Gray
Partner

Melbourne
11 February 2004