Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2005

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2005 with the corresponding period being the year ended 30 June 2004.

Results for announcement to the market

- Revenue from ordinary activities was $176.6 million, 25.4% up from the prior year.
- Profit from ordinary activities after tax was $158.8 million, 27.8% up from the prior year.
- Net profit attributable to members was $158.8 million, 27.8% up from the prior year.
- Dividends for the year were 16.0 cents per share. The interim dividend of 6.0 cents per share was paid to shareholders on 18 March 2005. A final dividend of 10.0 cents per share will be paid on 23 August 2005 to shareholders on the register on 9 August 2005. The shares are expected to trade ex-dividend on 3 August 2005.
- A Dividend Reinvestment Plan (DRP) is available, the price for which will be set by the Volume Weighted Average Price of the Company's shares traded on the ASX over the five trading days before the shares trade ex-dividend. The last day for notice of participation in the DRP is the record date, being 9 August 2005.

Australian Foundation
INVESTMENT COMPANY

MEDIA RELEASE - FULL YEAR RESULT

27 July 2005

DIVIDENDS UP ON 27.8% PROFIT JUMP

Australian Foundation Investment Company announced today its financial results for the year to 30 June 2005 with profit up 27.8% to a record $158.8 million, compared with last year's final profit of $124.2 million.

The Company has declared a higher final fully franked dividend of 10.0 cents per share, an increase of 1.25 cents on last year's final dividend of 8.75 cents per share. This takes total dividends for the year to 16 cents per share versus 14.25 cents per share last year, an increase of 12.3%. However, taking into account that last year's dividend included a 1 cent special dividend, the increase in the underlying recurrent dividend for the year is over 20%.

CHAIRMAN'S COMMENTS

The Chairman, Mr Bruce Teele commented, "The increase in our full year final profit reflects very buoyant conditions, both in terms of dividends paid to us by the companies in which we invest and the solid contribution of the trading portfolio. The flow of dividends and distributions on our investment portfolio rose nearly $33 million. This includes special distributions of $9.3 million for the year, the major components being $2.3 million from Macquarie Infrastructure Group, $1.8 million from Telstra, $1.3 million from AGL and $1.0 million from Perpetual Trustees.

The trading portfolio also contributed very positively to the result. Before tax, the dividends received and realised gains from trading were $21.2 million, up over $7 million on the previous year. However as we enter the new financial year we remain cautious about the market with the trading account at year end at 3% of the total portfolio, down from over 5% at the start of last financial year.

During the year the market was characterised by strength across most sectors but particularly across the resources and energy sectors. There was also a significant level of corporate activity as companies took advantage of strengthening balance sheets to position themselves for future growth. In addition, the banking sector which had lagged the general market for much of the year, gained considerable ground over the last quarter as investors became slightly more cautious about other sectors of the market and showed interest in more defensive stocks with good dividend yields. Our portfolio was positioned well for these gains with growth as measured by the change in net asset backing plus dividends up 24.3 % for the year to 30 June 2005.

As a result of the pick up in takeover activity the Company accepted offers for its holdings in Southcorp and OPSM which produced net realised gains after tax of $17.3 million for year to 30 June 2005. In addition, an outstanding takeover offer was in place for the Company's holding in Foodland at balance date. National Foods and Western Mining were awaiting compulsory acquisition .

We believe the market is entering into an interesting phase following such a strong run. In particular, a number of domestic businesses have recently experienced pressure on profit margins as a result of risings costs and slowing demand. Profit downgrades particularly in the small to mid cap sector have already been evident. On the other side of this more restrained outlook, growth in China and to a lesser extent the USA continues to underpin a positive outlook for the resources and energy sector at least in the medium term. However global imbalances still remain and the medium term outlook for global markets remain heavily dependent on continued growth in China and the willingness of international markets to fund budget and trade imbalances in the US.

Clearly the direction of corporate earnings flowing from the upcoming reporting season will provide direction for the market over the next twelve months. As a long term investor, the Company is in a strong financial position to take advantage of any investment opportunities that may arise from short term corrections that can sometimes drive market valuations".

Mr Teele also added "there has been some comment in the press recently about the ability of Listed Investment Companies to give their shareholders a tax deduction in respect of any capital gains (these are called LIC Capital Gains) that may be generated on their investment portfolio following a draft tax ruling by the ATO.

The draft tax ruling does not, in our view, change the application of these tax laws to our situation. We remain positive about our ability to provide shareholders with the tax deduction in respect of LIC capital gains made on disposal of equity securities from our investment portfolio held for more than one year where those gains are taxed.

Finally, as I stated in the half year result, we believe AFIC offers investors, especially those considering DIY super funds, sound exposure to a diversified portfolio of Australian equities with long term above market returns at an extremely low cost. The Company's management expense ratio for the year was 0.12% pa, net of recovered expenses from the other listed investment companies to which we provide services."

SUMMARY OF RESULTS

- Profit after tax was $158.8 million (last year $124.2 million), up 27.8 %.
- Earnings per share were 17.5 cents, an increase of 22.3% over 14.3 cents last year.
- A fully franked final dividend of 10.0 cents per share will be paid on 23 August 2005. Total dividend for the year is 16 cents per share versus 14.25 cents per share last year, an increase of 12.3%.
- Listed Investment Company capital gain of 1.0 cent per share is attached to the final dividend. This will enable some shareholders to claim a tax deduction in their tax return.
- Total portfolio return during the half (measured by change in net asset backing per share plus dividend) was an increase of 24.3 % after tax and management fees. The S&P/ASX 200 Accumulation Index increased by 26.4 %.
- Net asset backing at 30 June 2005 was $4.16 (before allowing for the 10.0 cent final dividend) compared to $3.48 last year.
- Management expense ratio on an annualised basis was 0.12% (net of administration fees recovered from other Investment Companies)
- Total portfolio (including cash and bank bills) at 30 June 2005 was $3.80 billion.

Profit Performance and Dividends

A record result was achieved for the 12 months to 30 June 2005 with reported profit up by 27.8% to $158.8 million and earnings per share increasing by 22.3 % compared with last year's corresponding period.

The primary contributor to the strong rise in profit was the significant increase in dividends and distributions received in the investment portfolio, up $32.9 million to $146.0 million, reflecting increased distributions from a number of companies in the portfolio. Income from the trading portfolio was also up $7.1 million to $21.2 million.

Directors have declared a final dividend of 10.0 cents per share fully franked, payable on 23 August 2005.

In 2001 the Government made changes to Capital Gains Tax relating to Listed Investment Companies ('LIC's'). 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 our holdings as a result of takeover offers, including Southcorp and OPSM the Company has made some LIC capital gains this year. Part of this year's final dividend will be 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 1.0 cent 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.

Comments on the Market and Investment Approach

The S&P/ASX 200 Accumulation Index enjoyed very strong growth, rising 26.4% over the year to 30 June 2005. A large proportion of the annual growth was in the first half of the year. Most sectors other than the Energy and Utilities Sectors produced subdued to even negative (in the case of the Consumer Discretionary sector) growth in the second half. In this context the Fifty Leaders Accumulation index grew 8.4% in the second half of the year whereas the combined Mid and Small Cap sectors grew 4.3% during this same period.

During this period AFIC adopted a cautious approach looking for periods of weakness to continue to build its holding in selected banks and further strengthen its position in the major resources companies.

AFIC's portfolio performance over the 12 month period as measured by growth in net asset backing plus dividends paid was 24.3%.

In regard to AFIC's medium to long-term goals the relative portfolio performance returns[1] have been:

	3 year	5 year	10 year	15 year
AFIC's Net Asset Backing (pre capital gains)	14.3%	12.8%	14.8%	14.3%
S&P/ASX 200 Accumulation Index	14.7%	9.4%	12.2%	11.2%[2]

[1] Annualised Return to 30 June 2005
[2] Estimated – S&P/ASX 200 Accumulation Index was not in existence prior to 1992.

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 fact that AFIC's dividend is fully franked whereas the cumulative dividend yield of the stocks in the index is only partially franked.

From time to time the Company is also able to pass through to shareholders a tax deduction (an LIC capital gains amount) in respect of capital gains arising from the sale of investments held for more than one year to put them in the similar position as if they held the shares directly. This benefit is also not reflected in the performance figures.

Trading Portfolio

The trading portfolio including dividends, option premium and profits on sale of securities provided for a positive return of $21.2 million for the twelve months to 30 June 2005 well ahead of last years relative contribution of $14.1 million.

The Board's general policy towards its trading portfolio is that it does not exceed 10% of the total portfolio. Over the period, the trading portfolio averaged 4.7 % of the Company's total portfolio. This position had reduced to 3.1 % by year end reflecting the Company's caution about current market valuations.

Investment Portfolio

During the past twelve months we have been increasing our exposure to the resource sector through companies such as BHP Billiton and Rio Tinto and at the same time taking advantage of some price weakness in other companies with strong underlying businesses such as the Commonwealth Bank and Telstra which we believe provide good long term return prospects, including strong dividend yield. The Company also built up its position in St George Bank during the period.

Significant merger and acquisition activity occurred during the year and as a result the Company accepted takeover offers for its holdings in Southcorp and OPSM. In addition, Transurban successfully acquired Hill Motorways during the period which meant our holding in Transurban increased $27.5 miilion as a result.

The value of the Investment Portfolio increased $822.5 million during the twelve month period compared with a rise of $547.8 million during the corresponding twelve month period last year. These figures reflect both rises in market value of investments and additional funds invested in the market. The key positive contributors to AFIC's performance in the year were Wesfarmers, BHP Billiton, Commonwealth Bank, Rinker, and Westpac Banking Corporation.

AFIC has continued to invest during the year and was close to fully invested by 30 June 2005. Major acquisitions to 30 June 2005 included $37.8 million in the Commonwealth Bank, $37.4 million in BHP Billiton, $30.0 million in Telstra, $24.6 million in St George Bank and $24.4 million in Westpac Banking Corporation.

As at 30 June 2005 the value of the Company's investment and trading portfolios at market value, including cash, was $3.80 billion.

Capital Changes

As a result of the reinvestment of dividends 5.9 million new shares were issued at a price of $3.29 per share and 3.5 million new shares were issued at a price of $3.68 per share.

During the 2005 financial year, the Company also bought back a small number of shares (7,534) at an average price of $3.29 per share closely following on from the August 2004 dividend reinvestment plan.

The Company's contributed equity, net of the share buy-backs and share issue costs, rose $32.4 million to $1.41 billion from $1.38 billion. At the close of the year the Company had 909 million shares on issue.

Outlook

Economic conditions in Australia provided a solid base for the continued increase in the local equity market over the past twelve months. Short term interest rates remained relatively stable with the Reserve Bank lifting short term interest rates once by 0.25% in March 2005. Towards the end of the financial year, it became evident that consumer demand was slowing and the housing market in some areas was starting to decline. On the other hand, despite the impact of drought conditions on some parts of the farm sector, the outlook for the external sector remained positive as the demand for and price of commodities, including energy products, on the back of the strength in the Chinese economy continued and the terms of trade improved.

Similarly, generally positive sentiment about economic growth elsewhere in Asia and the United States also provided encouragement for global and local equity markets.

In general, corporate profitability has supported valuations in the Australian market and there was a pick up in corporate activity as a number of merger and acquisitions opportunities were pursued. This, along with a number of share buy backs, returned significant amounts to investors, particularly towards the end of the financial year.

Looking forward, there are some signs of uncertainty. There is a likelihood of some continued slowing in the Australian economy. Rising raw material, labour and other input costs represent a challenge both in terms of the inflationary outlook and in corporate profits. We are somewhat guarded about the market at this point. Current valuations appear higher in Australia than many other global markets. There have already been a number of earnings downgrades which has been particularly evident in the small to mid cap sectors of the market. While the Company's portfolio is more focussed on the larger companies, these companies are not immune from rising input costs and declining margins.

In addition, the sustainability of the global growth, which remains heavily dependent on China and the United States, is also reliant on the continued support of international financial for the US twin trade and budget deficits necessary for the maintenance of an orderly international trade, interest rate and exchange rate environment.

The direction of corporate earnings emerging from the upcoming reporting season will provide some direction for the market over the next twelve months. Furthermore, the significant levels of cash held by investors and the flow of funds into superannuation creates strong momentum, particularly in an environment where investors are less attracted to the returns of other asset classes.

The Company will continue to look for opportunities to invest in companies with strong business franchises at prices that provide medium to long term value. To this end, the Company, following the compulsory acquisition of its holdings in National Foods and Western Mining Corporation and the possible takeover of Foodland, will have additional funds of $60 million to invest in the coming year. In addition, the Company also has access to lines of credit of up to $200 million when appropriate opportunities to invest arise.

As always, we will take a measured approach to investing and continue to follow our investment strategy of seeking value for the medium to long term, particularly in the form of dividend yield.

Please direct any enquiries to:

Bruce Teele Chairman (03) 9679 1361	Ross Barker Managing Director (03) 9924 0380	Geoff Driver General Manager Business Development and Investor Relations (03) 9679 1659

TOP INVESTMENTS AS AT 30 JUNE 2005

Includes investments held in both the Investment and Trading Portfolios

Top 20 Investments - Ordinary Securities

		At Market Value		Total Value $ million
1	*	CBA	Commonwealth Bank of Australia	299.6
2	*	WBC	Westpac Banking Corporation	255.1
3	*	BHP	BHP Billiton	228.9
4	*	NAB	National Australia Bank	213.3
5		WES	Wesfarmers	196.3
6	*	TLS	Telstra Corporation	151.4
7	*	ANZ	Australia and New Zealand Banking Group	107.7
8		TOL	Toll Holdings	104.5
9		RIN	Rinker Group	87.4
10		CML	Coles Myer	75.8
11		WOW	Woolworths	75.1
12	*	AWC	Alumina	73.1
13	*	RIO	Rio Tinto	72.2
14		SGB	St George Bank	66.6
15		WDC	Westfield Group	65.1
16		TCL	Transurban Group	63.1
17		WPL	Woodside Petroleum	62.9
18		AMC	Amcor	62.5
19		WAN	West Australian Newspapers Holdings	61.6
20	*	AGL	The Australian Gas Light Company	60.6
				2,382.9
			As % of Total Portfolio Value ($3,770m, excludes Cash)	63.2%

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

Top Investments – Preference Shares, Convertible Notes and Income Securities

	At Market Value		Total Value $ million
1	CMLPA	Coles Myer - 6.5% Reset convertible preference shares	49.1
2	NABHA	National Bank - Income securities	41.2
3	APNG	APN News & Media - 7.25% Unsecured convertible notes	22.3
4	STOPB	Santos - Non-cumulative converting perpetual floating rate preference shares	17.9
5	SSXPB	Smorgon Steel Group - 8% Reset convertible preference shares	12.3
6	RHCPA	Ramsay Healthcare - Convertible Adjustable Rate Equity Securities	9.8
			152.7
		As % of Total Portfolio Value ($3,770m, excludes Cash)	4.0%

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 $'000	2004 $'000
Income from investment portfolio		151,305	118,305
Income from trading portfolio		21,245	14,132
Income from deposits and bank bills		2,047	6,714
Other income		1,005	827
Total income from ordinary activities		**175,602**	**139,978**
Borrowing and related expenses		(534)	(983)
Administration expenses		(4,983)	(5,299)
Profit from ordinary activities before income tax expense	3	**170,085**	**133,696**
Income tax expense	4	**(11,245)**	**(9,449)**
Net Profit		**158,840**	**124,247**
Direct adjustments against equity			
Realised gains on investment portfolio (net of tax)	15	17,252	25,225
Unrealised gains/(losses) on investment portfolio	15	573,929	287,479
Total valuation adjustments recognised directly in equity		**591,181**	**312,704**
Net Profit plus direct equity adjustments		**750,021**	**436,951**

		Cents	**Cents**
Basic earnings per share	18	17.5	14.3

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

BALANCE SHEET AS AT 30 JUNE 2005

	Note	2005 $'000	2004 $'000
Current assets			
Cash	5	26,222	134,490
Receivables	6	20,114	21,638
Trading portfolio	7	107,156	151,301
Total current assets		**153,492**	**307,429**
Non-current assets			
Investment portfolio	8	3,651,168	2,828,699
Future income tax benefit	9	822	1,855
Total non-current assets		**3,651,990**	**2,830,554**
Total assets		**3,805,482**	**3,137,983**
Current liabilities			
Payables	10	6,134	1,820
Tax payable		8,019	10,873
Borrowings	5	17,000	-
Provisions	11	402	509
Total current liabilities		**31,555**	**13,202**
Non-current liabilities			
Payables	12	681	-
Provisions	13	27	837
Total non-current liabilities		**708**	**837**
Total liabilities		**32,263**	**14,039**
Net Assets		**3,773,219**	**3,123,944**
Shareholders' equity			
Share capital	14	1,412,137	1,379,848
Reserves	15	2,174,130	1,592,394
Retained profits	16	186,952	151,702
Total shareholders' equity		**3,773,219**	**3,123,944**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 $'000 INFLOWS/ (OUTFLOWS)	2004 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		133,538	117,799
Purchases for trading portfolio		(74,445)	(195,203)
Interest received		8,167	11,735
Dividends and distributions received		151,205	110,469
		218,465	44,800
Other receipts		1,005	827
Administration expenses		(5,184)	(4,911)
Borrowing and related expenses		(642)	(1,066)
Income taxes paid		(13,855)	(4,037)
Net cash inflow from operating activities	24	**199,789**	**35,613**
Cash flows from investing activities			
Sales from investment portfolio		101,514	91,245
Purchases for investment portfolio		(325,786)	(316,752)
Net cash (outflow) from investing activities		**(224,272)**	**(225,507)**
Cash flows from financing activities			
Proceeds from borrowings		55,000	100,000
Repayment of borrowings		(38,000)	(100,000)
Share issues		-	299,092
Share issues transaction costs		(40)	(901)
Payments for shares bought back		(25)	(5,825)
Payments for ELTIP shares bought		(65)	-
Dividends paid		(100,655)	(84,676)
Net cash inflow/ (outflow) from financing activities		**(83,785)**	**207,690**
Net increase in cash held		(108,268)	17,796
Cash at the beginning of the financial year		134,490	116,694
Cash at the end of the financial year	5	**26,222**	**134,490**

This statement should be read in conjunction with the accompanying notes. Note 5 provides details of the composition of cash.

1. Principal accounting and valuation policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. Interpretations of specific relevance to the Company are stated in this note. The Company 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
Balance Sheet	Statement of Financial Position
Profit & Loss Statement	Statement of Financial Performance
Net profit plus direct equity adjustments	Total changes in equity other than those resulting from transactions with owners as owners

a) Basis of accounting

The financial statements are prepared using the valuation methods described below for holdings of securities. All other items have been treated in accordance with the historical cost convention.

b) Holdings of securities

(i) *Balance sheet classification*

The Company has two discreet portfolios of securities, the trading portfolio and the investment portfolio.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts that are entered into, as described in Note 7.

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

The investment portfolio is classified as a 'non-current asset', whereas the trading portfolio is classified as a 'current asset'.

(ii) *Valuation of investment portfolio*

Securities, including listed and unlisted shares and notes and options, are initially brought to account at cost and are revalued to market values continuously. Increments and decrements are taken to the Asset Revaluation Reserve while it has a positive balance in total, otherwise they are included in Net Profit. Where disposal of an investment occurs any revaluation increment or decrement relating to it is transferred from the Asset Revaluation Reserve to the Asset Realisation Reserve while this reserve has a positive balance in total, otherwise they are included in Net Profit.

(iii) *Valuation of trading portfolio*

Securities, including listed and unlisted shares and notes and options, are initially brought to account at cost.

Each holding in the trading portfolio (which includes any exchange-traded options) is reviewed regularly. If Directors were to consider that a loss is almost certain on any holding then it would be written down to realisable value as estimated by Directors. After any individual write-downs have been made, the portfolio is then valued at the lower of carrying value and market value (or intrinsic value in the case of options) in aggregate. Any write down is included in the Net Profit of the Company.

Where disposals are made from the trading portfolio the gain or loss arising from the difference between the proceeds and the carrying value is included in the Net Profit of the Company.

(iv) Determination of market value

Market value for the purpose of valuing holdings of securities is determined by reference to market prices prevailing at balance date, predominantly last sale price, where the securities are traded on an organised market. Where a security is not so traded, its fair value is determined by the Directors.

(v) *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 unless the distributions are capital returns on ordinary shares in which case the amount of the distribution is treated as an adjustment to the cost base of the shares.

The premium received on options written is offset against the securities in the trading portfolio of the Company until the option expires, is exercised or is repurchased from the holder. When one of these events occurs, the net gain or loss arising on the option contract is included in Net Profit.

c) Taxation

Tax effect accounting is adopted whereby income tax is calculated on the profit adjusted for permanent differences between taxable and accounting income. The tax impacts of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, are recognised as future income tax benefits or deferred tax liabilities, as appropriate. Future income tax benefits and deferred tax liabilities are offset where they are expected to reverse in the same period.

No provision is made for any taxes that could arise on disposal of securities in the investment portfolio, as there is no intention to dispose of them. Where the Company 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. Any applicable tax is charged to the Asset Realisation Reserve.

d) Cash flows

For the purpose of the statement of cash flows, ‘cash’ includes cash, deposits held at call, investment grade promissory notes and discounted bills of exchange.

e) Interest rate swap

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period of settlement. The amount recognised is accounted for as swap contract costs during the period and included in ‘other receivables’ or ‘other payables’ at each balance date. Where the Company has decided to close out a swap agreement or a swap agreement has become an onerous contract due to adverse longer-term changes in interest rates, the net cost of closing out any swap agreement is recognised as a liability. There were no interest-rate swap agreements in place at 30th June 2005 or 30th June 2004.

f) Bills of exchange

Bills of exchange and investment grade promissory notes, which have been purchased in the market at a discount to face value, are carried at an amount representing cost. The discount is brought to account by amortising it over the life of the bill or note and is accounted for as interest received.

g) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Company approximates their carrying value.

h) 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

The liability for long service leave expected to be settled within 12 months of balance date is recognised in the current provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from balance date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to balance date. 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 discussed in Note 20(d) and are dependent upon the performance of the Company. Consequently, a provision is made for the cost of cash incentives at balance date, when the Company's performance can first be assessed.

(iv) Share incentives

Share incentives are provided under the Executive Short Term and Long Term Incentive plans and the Employee Share Acquisition Scheme as discussed in Notes 20 and 21 respectively.

For the Employee Share Acquisition Scheme and the Executive Short Term Incentive plan, the incentives are based on the performance of the individual and the Company for the financial year. Consequently, a provision for the expected cost of shares to be acquired is made at balance date, as this is when performance can first be assessed.

Shares acquired to satisfy obligations under the Executive Long Term Incentive plan are recognised as an adjustment against share capital (referred to as “ELTIP shares adjustment”) as at the date of acquisition by the Company. 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 Company 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.

Brokerage on the acquisition of shares under the relevant plans is expensed in the year that the shares are acquired as an expense of the relevant plan.

i) Directors’ retirement allowances

The Company recognises as liabilities Directors’ retirement allowances as described in Note 19(c). The liabilities for retirement allowances are recognised as current liabilities if they are expected to be settled within 12 months. These are measured at the amounts expected to be paid when they are settled, and where the amount has been crystallised, they are recognised as amounts payable. Otherwise, they are recognised as non-current provisions on the same basis as long service leave.

j) Administration fees

The Company 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.

k) Rounding of amounts

The Company is of the kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment 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.

2. Segment information

The Company operates as a Listed Investment Company in Australia. It has no reportable business or geographic segments.

3. Operating profit

Profit from ordinary activities before income tax expense is comprised of the following:

	2005 $'000	2004 $'000
(a) Income		
Dividends and distributions		
• securities held in investment portfolio	145,960	113,057
• securities held in trading portfolio	5,840	4,868
	151,800	117,925
Interest income		
• securities held in investment portfolio	5,345	5,248
• securities held in trading portfolio	18	60
• deposits and income from bank bills	2,047	6,714
	7,410	12,022
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	15,387	9,204
Administration fees	992	746
Other income	13	81
	1,005	827
	175,602	139,978
(b) Expenses		
Borrowing and related expenses		
- borrowing expenses	534	624
- swap contract cost	-	359
	534	983
Administration expenses		
- administration charges	3,153	3,061
- remuneration of Directors	1,090	1,359
- remuneration of executives	564	737
- remuneration of auditors	176	142
	4,983	5,299
Profit from ordinary activities before income tax	170,085	133,696

Further information relating to remuneration of auditors is set out in Note 23, Directors and executives in Notes 19 & 20.

4. Income tax

	2005 $'000	2004 $'000
The amount of income tax expense for the financial year differs from the amount calculated on the profit. The difference is reconciled as set out below:		
Income tax calculated at 30% (2004: 30%)	51,025	40,109
Tax effect of permanent differences which (reduce) / increase tax payable		
- franked dividends	(36,906)	(29,639)
- non taxable distributions	(1,790)	-
- sundry items	(61)	(423)
Prima facie tax adjusted for permanent differences	12,268	10,047
- under / (over) provision in prior year	(1,023)	(598)
Income tax attributable to profit from ordinary activities	11,245	9,449
Income tax attributable to profit from ordinary activities was comprised of		
- current taxation provision	10,212	11,787
- future income tax benefit	1,033	(2,338)
	11,245	9,449

5. Current assets – cash

Cash at bank and on hand	6,299	5
Deposits at call	1,970	3,955
Discounted bills of exchange	17,953	130,530
	26,222	134,490

Deposits at call yield an average floating interest rate of 5.26% (2004: 5.01%). Discounted bills of exchange and investment grade promissory notes yield an average fixed return of 5.51% (2004: 5.29%) and have a fixed term of up to one year.

(a) Credit risk exposure

The credit risk exposure of the Company in relation to cash and deposits is the carrying amount and any accrued unpaid interest. Purchased bills of exchange are carried on the balance sheet at an amount less than the amount realisable at maturity. The credit risk exposure of the Company regarding purchased bills of exchange is the carrying value, which comprises the cost of the bank bills and the income accrued to balance date.

(b) Standby arrangements and credit facilities

The Company is party to an agreement under which Commonwealth Bank of Australia and the National Australia Bank have agreed to accept or accept and discount bills of exchange.

Commonwealth Bank of Australia - floating rate bill facility	150,000	150,000
Amount drawn down	6,000	-
Undrawn facilities	144,000	150,000
National Australia Bank- floating rate bill facility	50,000	50,000
Amount drawn down	11,000	-
Undrawn facilities	39,000	50,000
Total floating rate facilities	200,000	200,000
Total drawn down	17,000	-
Total undrawn facilities	183,000	200,000

The above borrowings are unsecured.

6. Current assets – receivables

	2005 $'000	2004 $'000
Dividends and distributions receivable	19,910	20,380
Interest receivable/pre-paid	196	823
Outstanding settlements – Investment portfolio	-	435
Outstanding settlements – Trading portfolio	8	-
	20,114	21,638

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 Company in relation to receivables is the carrying amount.

7. Current assets – trading portfolio

Listed securities at carrying value		
- shares and trust units	109,371	155,117
- converting and convertible notes and other interest bearing securities	-	826
- Options sold by the Company		
• Calls	(1,909)	(4,044)
• Puts	(306)	(598)
	107,156	151,301
Market value of Trading portfolio	118,431	166,048

(a) Credit risk exposure

Credit risk exposures to the Company arise in relation to converting and convertible notes and other interest-bearing 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 Company, if any, to the extent of their carrying value.

(b) Options sold

The Company enters into option contracts in the trading portfolio for the purpose of enhancing returns, offsetting risk or providing opportunities to acquire or sell securities at advantageous prices. Where the Company sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Company sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option.

As at balance date the Company had sold put options which at the option of the purchaser may require the Company to buy prior to the respective expiry dates certain securities at prices which in aggregate totalled $7.9 million (2004: $20.3 million). As at balance date there were call options outstanding which potentially required the Company to deliver securities to the value of $59.6 million (2004: $107.3 million) held by the Company in its trading portfolio.

As at balance date all of these contracts are exchange-traded options and are entered into within the constraints and controls imposed by the Australian Stock Exchange Limited. 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 Company and related matters.

Collateral security to cover sold option positions and actual and prospective margin calls is lodged with the Australian Clearing House Pty Ltd as required by their rules.

8. Non-current assets – investment portfolio	**2005 $'000**	**2004 $'000**
Listed securities		
- shares at market value	3,571,458	2,747,440
- converting and convertible notes and other interest bearing securities at market value	79,660	81,209
Unlisted securities at Directors' valuation	50	50
	3,651,168	2,828,699

If the investment portfolio had been sold immediately after balance date a net capital gains tax liability of $507.9 million based upon a tax rate of 30% (2004: $333.9 million) would have arisen. However, Directors do not intend to dispose of the portfolio and therefore do not expect that the tax associated with such a disposal would be incurred.

Credit risk exposures to the Company arise in relation to converting and convertible notes to the extent of their carrying values in the event of a shortfall on winding-up of the issuing companies.

9. Non-current assets - future income tax benefit

The Company's future income tax benefit arises from timing differences in the recognition of items for taxation and accounting purposes, as described in Note 1(c). The key components are:

(a)	The difference in the value of the Trading portfolio for tax and accounting purposes as described in accounting policy note 1 (b) (iii)	527	483
(b)	Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	664	1,393
(c)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	362	436
(d)	Interest and dividend income receivable which is not assessable for tax until receipt	(731)	(457)
		822	1,855

The future income tax benefit arising from provisions and expenses charged but not yet tax deductible, will be obtained when the relevant items become tax deductible, provided that the Company 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 Company's ability to claim the tax deduction.

The portion of future deferred tax likely to be reversed within the next 12 months is $0.5 million (2004: $1.06 million). This relates primarily to items described in notes (a), (b) and (d) above.

10. Current liabilities - payables

	2005 $'000	2004 $'000
Dividends payable	324	361
Outstanding settlements – Investment portfolio	4,944	87
Outstanding settlements – Trading portfolio	687	1,267
Other payables	179	105
	6,134	1,820

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.

Interest rate swap contract

In the past, the Company had entered into an interest rate swap contract with a bank under which the Company was obliged to receive interest at variable market rates for 90-day bank-accepted bills and to pay interest at a fixed rate of 5.765% on a notional principal of $50 million until 4 November 2005. The contract was closed out during the year ended 30 June 2004 for no cost.

The Company's accounting policy for swap agreements is described in note 1(e).

11. Current liabilities – provisions

Employee entitlements	402	509
	402	509

12. Non-current liabilities – payables

Movement on amount payable for Directors retirement benefits during the year :		
Provision crystallised during year	796	-
Amount paid during year	(115)	
Balance at 30 June 2005	681	-

Refer to Note 19(c) for further details of the discontinued Director retirement benefits.

13. Non-current liabilities – provisions

Director retirement benefits	-	796
Employee entitlements	27	41
	27	837

Refer to Note 19(c) for further details of the discontinued Director retirement benefits.

14. Shareholders' equity – share capital

(a) Share capital	2005 Shares '000	2005 $'000	2004 Shares '000	2004 $'000
Ordinary shares – fully paid	908,965	1,412,375	899,537	1,380,021
Less ELTIP shares adjustment	-	(238)	-	(173)
	908,965	1,412,137	899,537	1,379,848

(b) Movements in ordinary shares of the Company during the past two years were as follows:

Date	Details	Notes	Number of shares '000	Issue price	Paid-up Capital $'000
30/06/2003	Balance		793,175		1,058,925
15/08/2003	Dividend Reinvestment Plan	i	5,082	3.47	17,634
22/10/2003	Rights Issue	iii	81,583	3.00	244,749
31/10/2003	Placement of Rights Issue shortfall	iii	18,172	3.00	54,516
12/03/2004	Dividend Reinvestment Plan	i	3,320	3.29	10,923
Various	Buy-backs	ii	(1,795)		(5,825)
Various	Cost of share issues		-		(901)
30/06/2004	Balance		899,537		1,380,021
19/08/2004	Dividend Reinvestment Plan	i	5,911	3.29	19,447
18/03/2005	Dividend Reinvestment Plan	i	3,525	3.68	12,972
Various	Buy-backs	ii	(8)		(25)
Various	Cost of share issues				(40)
31/05/2005	Balance		908,965		1,412,375

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 after the shares begin trading on an ex-dividend basis.

ii. The Company introduced an on-market share Buy-Back Program in December 2000. During the 2005 financial year the Company had bought back 7,534 shares (2004: 1,794,991 shares) at an average price of $3.29 (2004: $3.24).

iii. 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.

(c) Movements in ELTIP shares adjustment during the past two years were as follows ($) :

Award Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
2003-2004						
Mar 2004	-	184,393	11,525	-	-	172,868
2004-2005						
Mar 2004	172,868	-	46,098	-	-	126,770
Oct 2004	-	99,679	18,690	-	-	80,989
Apr 2005	-	32,777	2,048	-	-	30,729
Total for 2004/2005	172,868	132,456	66,836	-	-	238,488

15. Shareholders' equity – reserves

(a) Balances

		2005 $'000	2004 $'000
Asset Revaluation Reserve	(i)	1,936,550	1,362,621
Asset Realisation Reserve	(ii)	213,943	206,136
General Reserve	(iii)	23,637	23,637
		2,174,130	1,592,394

(b) Nature and purpose of reserves

(i) Asset Revaluation Reserve

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note 1(b)(ii).

(ii) Asset Realisation Reserve

This reserve records gains or losses arising from disposal of securities in the investment portfolio as described in accounting policy note 1(b)(ii). It is adjusted for applicable tax, if any, on such disposals as described in note 1(c). As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of Directors.

(iii) General Reserve

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.

(c) Movements

	2005 $'000	2004 $'000
(i) Asset Revaluation Reserve		
- Opening balance	1,362,621	1,075,142
- Revaluation of the investment portfolio	592,044	317,877
- Transfer to Asset Realisation Reserve	(18,115)	(30,398)
Closing balance	1,936,550	1,362,621
(ii) Asset Realisation Reserve		
- Opening balance	206,136	180,911
- Transfer from Asset Revaluation Reserve	18,115	30,398
- Tax on disposals from investment portfolio	(863)	(5,173)
- Transfer to Retained Earnings	(9,445)	-
Closing balance	213,943	206,136

(iii) General Reserve

No movements

16. Shareholders' equity - retained profits

Opening balance	151,702	140,799
Net Profit of the Company	158,840	124,247
Transfer from Asset Realisation Reserve	9,445	-
Dividends provided for or paid	(133,035)	(113,344)
Closing balance	186,952	151,702

17. Dividends

	2005 $'000	2004 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2004 of 8.75 cents fully franked at 30% paid on 19 August 2004 (2003: 8.75 cents fully franked at 30% paid on 15 August 2003).	78,709	69,440
Interim dividend for the year ended 30 June 2005 of 6.0 cents per share fully franked at 30%, paid 18 March 2005 (2004: 5.5 cents fully franked at 30% paid 12 March 2004)	54,326	43,904
	133,035	113,344
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	100,616	84,787
Reinvested in shares	32,419	28,557
	133,035	113,344

(b) Franking credits

	2005 $'000	2004 $'000
Balance on the franking account after allowing for tax payable in respect of the current year's profits, the receipt of dividends recognised as receivables and the payment of dividends recognised as a liability at balance date. It does not reflect the impact of dividends declared after balance date.	54,930 Credit	41,988 Credit
These franking account balances would allow the Company to frank additional dividend payments up to an amount of:	128,171	97,972

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

(c) Dividends declared after balance date

	2005 $'000	2004 $'000
Since the end of the year Directors have declared a final dividend of 10.0 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2005 to be paid on 23 August 2005, but not recognised as a liability at the end of the financial year	90,897	

(d) Listed Investment Company capital gain account

	2005 $'000	2004 $'000
Balance of the Listed Investment Company (LIC) capital gain account	6,441	14,206
This would equate to an attributable amount of	9,201	20,294

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.

18. Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	17.5	14.3
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	905,636,219	866,549,557
	$'000	**$'000**
Earnings used in calculating basic earnings per share	158,840	124,247

19. Directors

Persons who were Directors of Australian Foundation Investment Company Limited for part or all of the financial year ended 30 June 2005 were

BB Teele
DR Argus
RE Barker
TA Campbell
FD Ryan
SDM Wallis
CM Walter
J Paterson (Alternate for TA Campbell until 22 June 2005. Appointed Director 22 June 2005)
MA Neil (Retired 22 June 2005)

(a) Principles used to determine nature and amount of remuneration

The Company has established a Remuneration Committee to deal with remuneration issues relating to the Non-Executive Directors, Managing Director, and senior executives.

The constitution of AFIC requires approval by the shareholders in general meetings of a maximum amount of remuneration per year to be allocated between Non-Executive Directors as they determine. In proposing the maximum amount for consideration in general meeting, and in determining the allocation, the Committee takes account of the time demands made on Directors, together with such factors as the general level of fees paid to Australian corporate Directors. The amount of remuneration approved by shareholders excludes retirement benefits, and at the last Annual General meeting, a maximum of $600,000 per annum was approved for Non-Executive remuneration.

Non-Executive Directors hold office until such time as they retire, resign or are removed from office under the terms set out in the constitution of the Company.

Non-Executive Directors do not receive any performance based remuneration.

As proposed at the AGM last year, the Directors and the Company have agreed to freeze Directors retirement benefits at the 30 June 2004 level. This frozen amount will be paid to the respective Directors when they ultimately retire, without further adjustment. As the liability for benefits has now been crystallised, it has been reclassified from a provision to a payable. The Company continues to pay SGC contributions on Directors fees.

The remuneration arrangements for the Managing Director who is an executive are disclosed in Note 20.

(b) Remuneration of Directors

Details of the nature and amounts of each Director's remuneration in respect of the year to 30 June 2005 were as follows:

Primary				Post Employment			Equity			
	Fee / Base Salary $	Motor Vehicle $	Other Cash payments $	Superannuation $	Retirement allowance $	Total remuneration $	Short term shares $	Long term shares $	Total	Performance Based Remuneration as % of Total Remuneration
BB Teele – Chairman (Non-Executive)										
2005	100,000	-	-	9,000	-	109,000	-	-	109,000	N/A
2004	80,000	-	-	7,200	22,000	109,200	-	-	109,200	N/A
DR Argus – Director (Non-Executive)										
2005	50,000	-	-	4,500	-	54,500	-	-	54,500	N/A
2004	40,000	-	-	3,600	28,843	72,443	-	-	72,443	N/A
RE Barker# - Managing Director										
2005	341,527	37,120	125,000	11,667	-	515,314	125,000	54,821	695,135	44%
2004	300,848	19,378	[#]120,000	29,816	-	470,042	[#]120,000	9,033	599,075	42%
TA Campbell – Director (Non-Executive)										
2005	50,000	-	-	4,500	-	54,500	-	-	54,500	N/A
2004	40,000	-	-	3,600	11,000	54,600	-	-	54,600	N/A
MA Neil[^] – Director (Non-Executive) Retired 22 June 2005										
2005	53,305		-	-	-	53,305	-	-	53,305	N/A
2004	40,900	-	-	2,700	11,000	54,600	-	-	54,600	N/A
FD Ryan – Director (Non-Executive)										
2005	50,000			4,500	-	54,500	-	-	54,500	N/A
2004	40,000	-	-	3,600	21,630	65,230	-	-	65,230	N/A
SDM Wallis – Director (Non-Executive)										
2005	50,000			4,500	-	54,500	-	-	54,500	N/A
2004	40,000	-	-	3,600	11,000	54,600	-	-	54,600	N/A
CM Walter – Director (Non-Executive)										
2005	50,000			4,500	-	54,500	-	-	54,500	N/A
2004	40,000	-	-	3,600	23,052	66,652	-	-	66,652	N/A
J Paterson – Director (Non-Executive)										
2005	50,000	-	-	4,500	-	54,500	-	-	54,500	N/A
2004	-	-	-	-	-	-	-	-	-	N/A
Total Remuneration: Directors										
2005	794,832	37,120	125,000	47,667	-	1,004,619	125,000	54,821	1,184,440	
2004	621,748	19,378	120,000	57,716	128,525	947,367	[#]120,000	9,033	1,076,400	

Of the $120,000 cash incentives and $120,000 in Short Term Incentive Plan shares accrued for RE Barker for the year ended 30 June 2004, $100,000 in cash and $100,001 worth of Short Term Incentive Plan shares were received by RE Barker during the year ended 30 June 2005.

None of the incentives accrued for RE Barker for the year ended 30 June 2005 were paid during the year. The Remuneration Committee will assess RE Barker's performance for the financial year after the year end and therefore no estimate has been made of the amount that is likely to be paid. The incentives for the year ended 30 June 2005 will be payable during the year ended 30 June 2006.

As part of the Managing Director's employment arrangements, $119,000 (2004: $98,000) which he was due to receive as Directors fees from other investment companies, was paid across to the Company.

^ Upon reaching age 70, Directors no longer receive superannuation guarantee contributions (SGC) and this amount is paid as other fees in lieu of SGC. MA Neil received in addition this year $114,500 on the occasion of his retirement which was the amount due to him when the retirement allowances were frozen as noted above. In accordance with accounting policies, this amount had been recognised as remuneration in prior years.

(c) Directors' retirement allowances

The retirement allowance provided in past years was equal to the total emoluments that the Director received in the three years immediately preceding retirement, where a Director had held office for five or more years and a proportionate part for less than five years service. As noted above, the Company has discontinued Directors' retirement allowances.

As noted above, the amount due for retirement benefits has been determined and is now shown as a non-current liability – see Note 12.

	2005	**2004**
	$	**$**
Carrying amount at the start of the year	795,714	667,189
Additional provisions recognised	-	128,525
Transfer to amounts payable	(795,714)	-
Carrying amount at the end of the year	-	795,714

(d) Shareholdings

At balance date, shares issued by the Company and held directly, indirectly or beneficially by Directors of the Company, or by entities to which they were related were:

	Opening balance	**Received as remuneration (Note 20c)**	**Other changes**	**Closing balance**	**Subject to vesting***
BB Teele	1,656,523		100,000	1,756,523	
DR Argus	144,000		15,000	159,000	
TA Campbell	195,738			195,738	
MA Neil	473,073			NA *	
J Paterson	169,827		30,207	200,034	
FD Ryan	82,500			82,500	
SDM Wallis	162,763		39,724	202,487	
CM Walter	35,437		70,000	105,437	
RE Barker	461,282	29,486	60,167	550,935	73,507

* MA Neil retired on 22 June 2005.

Shares acquired by the Directors and Director related entities include shares acquired under the DRP and SAP on the same basis as similar transactions with other shareholders.

The Board has adopted a policy in which each Non-Executive Director should have a meaningful financial interest in the Company of at least one year's Directors' fees. If not, 25% of a Director's fees are to be applied each year until that level is reached. All the current Directors of the Company have a shareholding greater than this level.

Directors and Director-related entities received normal dividends on these shares.

** Closing balance includes shares issued to participants of the ELTIP (refer Note 20(e)) that have not yet vested to the participant.*

20. Executives

Executives are officers who are involved in, concerned with, or who take part in, the management of the affairs of the Company.

The Company has only four executives, RE Barker Managing Director, GN Driver, General Manager - Business Development and Investor Relations, AJB Porter, Chief Financial Officer and SE Crook, who is Company Secretary and General Counsel (2003: three executives).

(a) Principles used to determine nature and amount of remuneration

The Company has adopted a policy of remuneration for senior management which includes a base remuneration component and an "at risk" component to encourage and reward high performance. The "at risk" component of remuneration includes not just compensation for short term performance but also reward for medium to long term performance.
The short-term incentive component of performance related remuneration is assessed against four objective measures:

Total Shareholder Return (ie movement in share price plus dividends reinvested),
Total Portfolio Return (ie movement in net asset backing per share plus dividends reinvested),
Growth in earnings per share; and
Management Expense Ratio (MER)

These measures were chosen as it was the Board's opinion that they best reflect the changes in shareholder wealth over the short-term, and how these changes can best be assessed. Changes in shareholder wealth over the long-term (ie the last 5 years) are measured and assessed as part of the Long-Term Incentive Plan (see below). The target amount of short-term incentive that can be awarded for the financial year is a shown in Notes 19 & 20, but the Remuneration Committee may recommend that more than this be paid should performance exceed target. The minimum amount of short term incentive that can be awarded is nil.

The results of the four objective measures for the financial year ended 30 June 2005 were as follows:

	2005	**2004**
Total Shareholder Return	17.9%	0.7%
Total Portfolio Return	24.3%	18.6%
Growth in earnings per share	22.3%	8.8%
Management Expense Ratio	0.12%	0.16%

The short-term assessment also includes consideration of various other qualitative matters including achievement of personal objectives. The award for the short-term incentive is set according to whether the target performance measures are achieved and a higher amount is awarded if higher levels of performance or 'stretch' levels are achieved. Of the amount determined as a short-term incentive, half would be paid in cash and the other half in shares in the Company, subject to approval by shareholders, where applicable.

The terms of the executives' appointment do not provide for any termination payments other than any outstanding remuneration. No executive is employed on a fixed term contract.

(b) Remuneration of executives who are not Directors

Details of the nature and amounts of each executive's remuneration in respect of the year to 30 June 2005 were as follows:

	Primary		Post Employment	Equity			
	Base Salary $	Cash incentives & other payments $	Superannuation $	Short term shares $	Long term shares $	Total $	% Performance Based
GN Driver – General Manager – Business Development and Investor Relations#							
2005	298,547	38,333	26,869	38,325	12,015	414,089	21%
2004	280,963	#90,000	25,284	#90,000	2,492	488,739	37%
AJB Porter – Chief Financial Officer							
2005	126,147	20,000	11,353	20,000	-	177,500	23%
2004	-	-	-	-	-	-	N/A
MA Licciardo – Company Secretary							
2005	64,324	9,174	10,101	-	-	83,599	12%
2004	135,528	20,000	11,972	977	-	168,477	12%
SE Crook – Company Secretary & General Counsel*							
2005	16,528	27,740	731	2,740		47,739	11%
2004	-	-	-	-	-	-	N/A
Total Remuneration: Executives who are not Directors							
2005	505,546	95,247	49,054	61,065	12,015	722,927	
2004	416,491	110,000	37,256	90,977	2,492	657,216	

The $90,000 in Cash incentives and $90,000 in Short Term Incentive Plan shares accrued for GN Driver represent an over accrual for the year ended 30 June 2004. During the year ended 30 June 2005, GN Driver received $33,333 in Cash incentive payment and $33,316 worth of shares in the Short Term Incentive Plan. 50% of the short-term cash and equity incentive payments made to GN Driver related to the year ended 30 June 2005. Of this amount, none was forfeited due to qualitative measures not having been achieved and 17% was forfeited due to quantitative measures not having been achieved. Incentive payments relating to the remainder of the year, that have been accrued at year end, will be paid upon assessment during 2005/2006.

* The other payments figure for SE Crook includes an amount of $25,000 paid in compensation for remuneration foregone from a previous employer as a consequence of commencing employment with the Company. The amount was paid after SE Crook joined the Company.
MA Licciardo was not assessed under the Executive Short Term Incentive Plan.

Any incentive payments due for the year ended 30 June 2005 relating to AJB Porter and SE Crook will be payable in the year ended 30 June 2006, as will the remainder of the payments to GN Driver. They have not yet been assessed for the current financial year, and therefore no estimate can be given as to how much of the incentive payment for this financial year is likely to be granted and how much forfeited next year.

(c) Shareholdings

At balance date, shares issued by the Company and held directly, indirectly or beneficially by executives who are not directors of the Company, or by entities to which they were related were:

	Opening balance	**Received as remuneration**	**Other changes**	**Closing balance**	**Subject to vesting***
GN Driver	59,789	18,260	1,688	79,737	21,274
MA Licciardo	6,852	0	0	n/a	-
AJB Porter	0	0	275	275	-

SE Crook was not a shareholder at balance date. MA Licciardo was not an executive of the company at balance date.

Shares acquired by the executives who are not directors and their related entities include shares acquired under the DRP and SAP on the same basis as similar transactions with other shareholders.

Executives and their related entities received normal dividends on these shares.

** Closing balance includes shares issued to participants of the executive long term incentive plan (refer Note 20(e)) that have not yet vested to the participant*

(d) Executive short term incentive plan

The Company has established a formal process for awarding senior executives short-term incentives in the form of cash and shares in equal components based on the Board's evaluation of their performance. All four current executives are assessed in this manner.In assessing their performance, the Board considers objective measures regarding Total Shareholder Return (movement in share price plus dividend reinvested), Total Portfolio Return (movement in net asset backing plus dividends reinvested) and the Management Expense Ratio as well as various qualitative matters. For details of the results of these measures, see note 20 (a).

Shares awarded under these arrangements are acquired on market. They are subject to a two-year holding lock, but are not dependent upon future performance.

Under this plan, RE Barker and SE Crook are awarded shares based on performance in the financial year, and GN Driver and AJB Porter are awarded shares based on performance in the calendar year. The different treatment is due to the fact that executives commenced with the company at different times.

During the current financial year the following numbers of shares were issued based on an assessment of performance:

	2005 Number	**2004 Number**
RE Barker	29,486	44,022
GN Driver	9,130	12,144
Shares awarded during the year	38,616	56,166

In accordance with the accounting policy described in Note 1 (h) (iii) & (iv), the Company has provided at balance date the following amount in relation to the performance for the year ended 30 June 2005, which are included in the remuneration figures above.

	$	$
RE Barker	250,000	240,000
GN Driver	43,333	180,000
AJB Porter	40,000	-
SE Crook	5,480	-
	338,813	420,000

(e) Executive long term incentive plan

The Company has established a formal process for awarding senior executives long-term incentives in the form of shares based on the Board's evaluation of their performance against market hurdles. All four current executives are assessed under this plan. Shares awarded under the plan 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 4 years during which time the executive will be entitled to dividends and hold voting rights. In accordance with the accounting policy disclosed in Note 1(h)(iv), the shares acquired on market are recognised in the financial statements as an adjustment against share capital, as disclosed in Note 14.

Between year four and year five, an assessment of the Company's performance is made each month to determine whether the Company has achieved Total Shareholder and Portfolio Returns over the previous 48 months (from the month of assessment) as described below. Shares will vest based on the highest cumulative performance class achieved during this assessment period. If after 5 years full vesting does not occur, the shares that have not been awarded will lapse and be transferred back to Company for no consideration. These shares will then be cancelled.

These measures were chosen by the Board as being, in its opinion, the best way of assessing the changes in shareholder wealth over the year in which the shares will vest and the previous 4 financial years.

The performance measures are as follows:

Total Shareholder Return (TSR) (50% of performance target)

Performance:	**% of shares vesting**
Below ASX200 Accumulation Index Return	0%
Above ASX200 Accumulation Index Return by <10%	25%
Above ASX200 Accumulation Index Return by 10% to 20%	37.5%
Above ASX200 Accumulation Index Return by >20%	50%

Total Portfolio Return (TPR) (50% of performance target)

Performance:	**% of shares vesting**
Below median return of survey of Australian Retail Fund Managers	0%
Between median and 62.5th Percentile of survey of Australian Retail Fund Managers	25%
Between 62.5 and 75th Percentile of survey of Australian Retail Fund Managers	37.5%
Above 75th Percentile of survey of Australian Retail Fund Managers	50%

As the ELTIP was approved in 2004, no shares have yet been vested. When the shares are due to vest, full disclosure will be made of the Company's performance against the above benchmarks.

During the current financial year the following number of shares were awarded under the plan:

	2005 Number	Fair value $	2004 Number	Fair value $
RE Barker	29,485	99,679	44,022	144,524
GN Driver	9,130	32,777	12,144	39,869
AJB Porter	-	-	-	-
SE Crook	-	-	-	-
Shares awarded during the year	38,615	132,456	56,166	184,393

The fair value of the shares awarded has been determined in accordance with the accounting policy in Note 1 (h) (iv). While the achievement of the performance hurdles will be challenging, the assignment of a probability of meeting the market hurdles would be speculative. In order to be prudent the Directors have adopted an assumption of 100% vesting. The fair value assumption has been based on the market hurdles being achieved. The Directors have assessed the impact of the holding restriction on the fair value of the shares as immaterial.

Set out below is a summary of shares awarded but not yet vested under the plan.

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
Mar 2004	Apr 08 - Mar 09	56,166	-	-	-	56,166
Oct 2004	Nov 08 - Oct 09	-	29,485	-	-	29,485
Apr 2005	May 09 – Apr 10	-	9,130	-	-	9,130
Total		56,166	38,615	-	-	94,781

21. Employee benefits

	2005 $'000	2004 $'000
Employee benefit and related on-costs liabilities		
Provision for employee benefits – current (note 11)	402	509
Amounts payable for employee benefits – non-current (note 12)	681	-
Provision for employee benefits – non–current (note 13)	27	837
Aggregate employee benefit and related on-costs liabilities	1,110	1,346
Employee numbers	**Number**	**Number**
Number of employees at balance date	11	9

Employee share scheme

The Company 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 6 participants (2004: 7) in the scheme were each awarded 270 shares (2004: 300) in the Company in relation to their performance for the year ended 30 June 2003. These shares cost the Company $6,122 (2004: $6,837) to acquire on market, including brokerage.

22. Related parties

Directors TA Campbell is, and John Paterson was, interested in the following transactions as Directors, employees and shareholders of Goldman Sachs JBWere Pty Ltd, Goldman Sachs JBWere Services Pty Ltd and Goldman Sachs JBWere Capital Markets Limited. All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

		2005 $'000	2004 $'000
(a)	The Company invests surplus funds in deposits at call with Goldman Sachs JBWere Capital Markets Limited and bills of exchange		
	- interest revenue received or receivable	243	303
	- sales of bills with GS JB Were Capital Markets Ltd as principal	4,954	-
	- deposits at call (at balance date)	1,970	3,955
(b)	The management of surplus funds is outsourced to Goldman Sachs JB Were Capital Markets Ltd		
	- expense paid or payable for management of the cash and bill portfolio	64	174
(c)	The Company obtains investment advice and buys and sells securities through Goldman Sachs JBWere Pty Ltd amongst other brokers		
	- Brokerage expenses paid or payable	964	1,204
	- Portfolio advice services paid or payable	44	44
(d)	The Company obtains the following services from Goldman Sachs JBWere Pty Ltd		
	- Computer services	105	97
	- Printing and stationery	14	18
(e)	The Company rents premises from Goldman Sachs JBWere Services Pty Ltd.	187	270

23. Remuneration of auditors

	2005 $	2004 $
During the year the auditor earned the following remuneration:		
PricewaterhouseCoopers		
Audit or review of financial reports	118,300	104,752
Non-Audit Services		
Taxation compliance services	21,989	19,250
Other assurance services #	35,219	16,600
Other taxation services	-	1,375
Total Non-Audit Services	57,208	37,225
Total remuneration	175,508	141,977

The Other assurance services relates to assurance over accounting disclosure with respect to the AFIC Rights Issue prospectus in 2003/4. These costs have been included in the cost of share issues and are amortised as detailed in note 14(b). In 2004/05 they relate to work regarding an examination of the Company's risk management systems.

The Company's Audit Committee oversees the relationship with the Company'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 Company also conforms to Corporate Governance best practice regarding audit partner rotation every 5 years.

24. Reconciliation of net cash flows from operating activities to Net profit	**2005 $'000**	**2004 $'000**
Net Profit	158,840	124,247
- Dividends received as securities under DRP investments	(860)	(5,121)
- Capital gains tax provision included in asset realisation reserve	(863)	(5,173)
- Decrease (increase) in current receivables	1,524	1,843
- Less increase (decrease) in receivables for investment portfolio	(435)	435
- Decrease (increase) in the trading portfolio	44,145	(92,767)
- Decrease (increase) in future income tax benefit	1,033	(2,339)
- Increase (decrease) in current payables	4,314	(9,025)
- Less decrease (increase) in payables for investment portfolio	(4,857)	10,166
- Less increase (decrease) in dividends payable	38	(111)
- Increase (decrease) in provision for tax payable	(2,854)	12,864
- Increase (decrease) in other provisions	(236)	594
Net cash flows from operating activities	199,789	35,613

25. Contingencies

At balance date Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

26. Impact of adopting International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) has mandated the adoption Australian equivalents to International Financial Reporting Standards (AIFRS). The adoption of AIFRS will be first reflected in the Company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. The Company has elected not to defer the application of Accounting Standards AASB 132 (Financial Instruments : Disclosure and Presentation) and AASB 139 (Financial instruments : Recognition and Measurement) as permitted by Accounting Standard AASB 1 (First Time Adoption of AIFRS).

The Company has analysed and quantified below what the effects of the change in accounting standards would be to the Profit and Loss Statement and to the Balance Sheet that are reported at 30 June 2005 under Australian Generally Accepted Accounting Principles ("AGAAP") . Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004. Whilst there may be changes to these figures as a result of future pronouncements or clarifications from the AASB, the below quantifications are held to be materially correct at the time of publication :

a) Trading portfolio to be measured at market value

Under AIFRS the trading portfolio will be revalued to fair market value continuously with all increments and decrements being included in Net Profit, whereas currently the trading portfolio is currently valued at the lower of carrying value and market value in aggregate. This change may result in increased volatility in reported results for the trading portfolio.

At balance date the amount by which the market value of the trading portfolio exceeded its carrying value was $11.3 million, and the effect on the Profit and Loss Statement during the year would have been a reversal of previous gains resulting in a loss of $3.3 million.

b) Income tax impact of measuring trading portfolio at market value

Under AIFRS, the Company will be required to recognise an additional tax asset or liability reflecting the deferred tax effect of measuring the trading portfolio at market value as described in (a) above. The additional deferred tax liability or asset on the trading portfolio will be reflected in income tax expense.

At balance date this would require recognition of an additional deferred tax liability of $3.4 million. The effect on the Profit and Loss Statement during the year would have been a tax credit of $1.0 million.

c) Realised gains of investment portfolio included in Net Profit

Under AIFRS, realised gains of the investment portfolio (net of tax) will be included in Net Profit rather than treated as a direct equity adjustment. Net unrealised gains on investments other than hybrids and convertible securities will continue to be recognised through the Asset Revaluation Reserve. Consequently, the Asset Realisation Reserve will cease to exist.

The net realised gains (after tax) of $17.3 million are already disclosed in the Profit and Loss Statement. There would be no change to shareholders' equity.

d) Recognition of deferred capital gains tax on investment portfolio

Under AIFRS, the Company must recognise an additional deferred tax liability amount for the capital gains tax payable on unrealised gains in the investment portfolio (apart from hybrid and convertible securities) as disclosed in Note 8. This additional deferred tax liability is offset against the unrealised gains on the investment portfolio recognised in the Asset Revaluation Reserve of the Company.

At balance date this would require recognition of an additional deferred tax liability of $503.8 million with a corresponding reduction in the Asset Revaluation Reserve. During the year, the charge to the Asset Revaluation Reserve would have been $174.4 million.

e) Hybrids & Convertible Securities

Under AIFRS, the Company must either :

- remove the embedded derivative component of a hybrid security, account for this at fair value through the Profit and Loss Statement and fair value the remaining 'bond' part of the security through the Revaluation Reserve, or
- account for the entire asset at market value through the Profit and Loss Statement.

The Company has elected to do the latter. This would result in a movement of $13.5 million from the Revaluation Reserve to Retained Earnings and the effect on the Profit and Loss Statement during the year would have been a reversal of previous gains resulting in a loss of $0.7 million.

f) Recognition of deferred capital gains tax on unrealised gains on Hybrids and Convertible Securities

Under AIFRS, the Company must account for deferred capital gains tax on the unrealised gain on hybrids and convertible securities that form part of the investment portfolio, as they are being measured at fair value through Profit & Loss. At balance date this would require recognition of an additional tax deferred liability of $4.1 million with a corresponding charge to Retained Earnings and the effect on the Profit and Loss Statement during the year would have been an income tax credit of $0.2 million.

Summary of Impact of Adopting AIFRS

Profit and Loss Statement for the Year Ended 30 June 2005

	As per Profit & Loss	Adjustment		As per AIFRS	
	$m	$m		$m	
Revenue from investment portfolio	157.2			157.2	
Income from trading portfolio	15.4	(3.3)	a)	12.1	
Revenue from Deposits & Bank Bills	2.0			2.0	
Other income	1.0			1.0	
Total income from ordinary activities	**175.6**	**(3.3)**		**172.3**	
Administration & borrowing expenses	(5.5)			(5.5)	
Operating profit	**170.1**	**(3.3)**		**166.8**	
Income tax expense	**(11.3)**	**1.0**	b)	**(10.3)**	
Net operating profit	**158.8**	**(2.3)**		**156.5**	
Realised gains on Ordinary Securities in investment portfolio	-	17.0	c)	17.0	
Realised gains on Other Securities in investment portfolio	-	1.1	e)	1.1	
Unrealised gains on Other Securities in investment portfolio	-	(0.7)	e)	(0.7)	
Tax on gains in investment portfolio	-	(0.6)	c)& f)	(0.6)	
Net Profit	**158.8**	**14.5**		**173.3**	
Direct adjustments against equity					
Realised gains/(losses) on investment portfolio (net of tax)	17.3	(17.3)	c)	-	
Unrealised gains/(losses) on investment portfolio	573.9	(173.5)	d)e) f)	400.4	#
Total valuation adjustments recognised directly in equity	**591.2**	**(190.8)**		**400.4**	
Net profit plus direct equity adjustments	**750.0**	**(176.3)**		**573.7**	

Net of deferred capital gains tax on investment portfolio

Balance Sheet

	As per Balance Sheet		Adjustment		As per AIFRS	
	30/06/05	**30/06/04**	**30/06/05**	**30/06/04**	**30/06/05**	**30/06/04**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Trading portfolio a)	107.2	151.3	11.3	14.6	118.5	165.9
Future income tax benefit	0.8	1.9	0	0	0.8	1.9
Investment Portfolio c), e)	3,651.2	2,828.7	0	0	3,651.2	2,828.7
Other assets	46.3	156.1	0	0	46.3	156.1
Total assets	**3,805.5**	**3,138.0**	**11.3**	**14.6**	**3,816.8**	**3,152.6**
Deferred tax liability b),d)& f)	-	-	(511.3)	(338.3)	(511.3)	(338.3)
Other liabilities	(32.3)	(14.1)	0	0	(32.3)	(14.1)
Total liabilities	**(32.3)**	**(14.1)**	**(511.3)**	**(338.3)**	**(543.6)**	**(352.4)**
Net assets	**3,773.2**	**3,123.9**	**(500.0)**	**(323.7)**	**3,273.2**	**2,800.2**
Shareholders' equity						
Share Capital	1,412.1	1,379.8	0	0	1,412.1	1,379.8
Reserves	2,174.1	1,592.4	(731.2)	(550.1)	1,442.9	1,042.3
Retained Earnings	187.0	151.7	231.2	226.4	418.2	378.1
Total shareholders' equity	**3,773.2**	**3,123.9**	**(500.0)**	**(323.7)**	**3,273.2**	**2,800.2**

DIRECTORS' DECLARATION

In the Directors' opinion:

1) the financial statements and notes set out on pages 11 to 38 are in accordance with the Corporations Act 2001 including :

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

   b) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, 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.

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 2005. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer 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 Teele
Chairman

Melbourne
27 July 2005

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Auditors' Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2005, 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 during the period.

Simon Gray
Partner
PricewaterhouseCoopers

Melbourne
27 July 2005

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Independent audit report to the members of Australian Foundation Investment Company Limited

Audit opinion

In our opinion, the financial report of Australian Foundation Investment Company Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Australian Foundation Investment Company as at 30 June 2005, and of its performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001.*

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, profit and loss statement, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Australian Foundation Investment Company Limited ("the Company"), for the year ended 30 June 2005.

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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents

PRICEWATERHOUSECOOPERS

fairly, in accordance with the *Corporations Act 2001*, Accounting Standards 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 audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Simon Gray

Simon Gray
Partner

Melbourne
27 July 2005