Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONTENTS

- Results for announcement to the market
- Media Release
- Appendix 4D Accounts
- Independent Audit Report

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2005 with the previous corresponding period being the half-year ended 31 December 2004. The previous corresponding period figures have been adjusted as required under the new Accounting Standards that the Company adopted on 1 July 2005.

Results for announcement to the market

- Income from operating activities (excluding capital gains) was $94.8 million, 6.9% up from the previous corresponding period.

- Operating Profit after tax was $87.0 million, 8.0% up from the previous corresponding period

- Net Profit attributable to members (including capital gains) was $118.0 million, 44.2% up from the previous corresponding period.

- The final dividend for the 2005 financial year was 10 cents per share (fully franked), and it was paid to shareholders on 23 August 2005.

- The interim dividend is 6.5 cents per share, fully franked. It will be paid on 7 March 2006 to ordinary shareholders on the register on 21 February 2006.

- 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 21 February 2006.

- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2005 were $4.56 (before allowing for the interim dividend), up from $3.93 (before allowing for the interim dividend) at the end of the previous corresponding period.

MEDIA RELEASE - HALF YEARLY RESULT

8 February 2006

HALF YEAR PROFIT UP STRONGLY, DIVIDEND LIFTED

Australian Foundation Investment Company today announced its financial results for the half year to 31 December 2005 utilising for the first time the Australian equivalents to International Financial Reporting Standards ("AIFRS").

SUMMARY OF RESULTS

- Operating Profit after tax was $87.0 million (last year $80.6), up 8.0%.
- AIFRS Reported Profit after tax was $118.0 million (last year $81.9), up 44.2%. This includes realised gains on the sale of investments.
- Earnings per share based on Operating Profit were 9.5 cents, an increase of 6.3% over 8.9 cents last year.
- A fully franked interim dividend of 6.5 cents per share will be paid on 7 March 2005. This is an increase of 0.5 cents over last year's interim of 6.0 cents
- Total shareholder return measured by the change in share price plus reinvested dividend over the half year was up 18.1%
- Total portfolio return during the half (measured by change in net asset backing per share plus dividend reinvested) was an increase of 12.4% after tax and management fees.
- Net asset backing at 31 December 2005 was $4.56 (before allowing for the 6.5 cent interim dividend). At 31 January 2006 the net asset backing was $4.69 also before allowing for the interim dividend.
- 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 31 December 2005 was $4.26 billion.

Under AIFRS, the reported profit after tax of the Company for the six months to 31 December 2005 was $118.0 million. This figure includes after tax profits on the sale of securities from the investment account of $31.7 million which are required to be included as profit under these new standards.

Operating profit after tax, which excludes realised capital gains increased to $87.0 million or 8.0% over the equivalent number of $80.6 million last year. It is the Board's view that this number is more reflective of the investment and trading income from the Company's portfolios. The operating profit per share for the six months to 31 December 2005 was 9.5 cents per share.

The Company has declared an interim fully franked dividend of 6.5 cents per share, an increase of 0.5 cents on last year's interim dividend of 6.0 cents per share.

While the move to new accounting standards means that we have to report our profit differently, it is the Board's intention to continue to use underlying operating profit as the primary base from which it determines the Company's ongoing dividend. In keeping with past practice it is Company's intention not to use realised capital gains from investments to source dividends except to the limited extent necessary to distribute LIC capital gains benefits.

Chairman's Comments

In commenting on the results, the Chairman, Mr Bruce Teele noted "The pleasing aspect of our operating profit was the continued flow of fully franked dividends from the companies in which we invest. This is the key driver of our business and investment approach and was up 17.3% over the half year. Also reflecting the strength of corporate balance sheets, special distributions/dividends appear to be becoming more commonplace. In this context the Company received $5.1 million of special distributions/dividends, the major components being $1.9 million from Telstra, $1.8 million from Suncorp Metway and $0.7 million from Perpetual Trustees. Total income from the investment portfolio was up 20.8% to $88.2 million

We took a more cautious approach throughout the half year in the trading account in light of the ongoing strength of the market and the desire to lessen the risk within this portfolio. As a result, the profit from the trading account excluding unrealised gains was $4.0 million whereas in the corresponding half we were able to produce $7.1 million from the trading account. We felt this to be the prudent approach given the market conditions.

During the half year, contrary to our more cautious view on valuations, the equity market has continued rising with strong gains over most sectors. The resources and energy sectors have been particularly strong although other areas of the market have also performed strongly, with healthcare and utilities posting extremely good returns. For a value investor such as AFIC, this market has presented us with challenges. However we have continued to build the portfolio concentrating on companies with strong cash flows and good fully franked dividend yields. In this context we were able to add to our holdings in companies such as AMP, Woolworths, Promina and IAG during the half, usually during periods when they were somewhat unloved by the market. As a result, the Company was close to fully invested at 31 December 2005.

In looking forward, we believe the Australian market is looking very fully priced in absolute terms and also relative to key offshore markets. However we also recognise for the most part the market is being underpinned by strong balance sheets and expectations of continued profit growth. Also the high levels of cash being generated though compulsory superannuation is finding its way into the market, including the expanding level of alternate and more highly leveraged asset classes. In the current environment many market commentators are expecting a positive second half to the financial year. We remain concerned about the potential of emerging cost pressures impacting profit margins and inflationary expectations impacting interest rate settings. We are also closely watching the risk of ever increasing borrowings being engineered into some of the newer innovative investment products."

Mr Teele also added, "It was pleasing to see the Company's share price move closer to its pre capital gains tax net asset backing of $4.56 cents as at 31 December 2005. This is an indication that investors are seeing value in the Listed Investment Companies in a market where the valuations in many sectors seem high.

Profit Performance

From July 2005 the Company has been using the Australian equivalents to International Financial Reporting Standards (AIFRS). Under these standards the Company has to include any profits made on the sale of investment as part of reported profit and any movement in the market value of the trading portfolio. Whilst this may introduce some more variability into the reported profit of the Company these accounting changes do not change the Company's investment and business objective and the way in which the Company is run.

On this basis the profit for the 6 months to 31 December 2005 was $118.0 million compared with $81.9 million for the half year to 31 December 2004. This large increase was primarily because of the takeovers of Foodland, National Foods and Western Mining which produced realised pre-tax profits of $34.9 million on the sale of these investments from the Company's Investment Portfolio.

Net Operating Profit after tax for the period (which excludes realised capital gains) was $87.0 million, an increase of $6.4 million or 8.0% on the corresponding period last year. The primary contributor to the strong rise in Operating Profit was the significant increase in fully franked dividends received in the investment portfolio, up $11.4 million to $69.8 million, reflecting increased distributions from a number of companies in the portfolio.

The result also included special distributions/dividends from Telstra $1.9 million, Suncorp Metway $1.8 million and Perpetual Trustees $0.7 million. The Company received similar special distributions during the corresponding period last year from Macquarie Infrastructure Group of $2.1 million and $1.0 million from Perpetual Trustees.

Total income from investments which includes these fully franked dividends and distributions was $88.0 million up from $73.9 million.

The result for Net Operating Profit this year represents an increase in net operating profit per share to 9.5 cents per share from 8.9 cents per share over the corresponding period last year.

Dividends

Directors have declared an interim dividend of 6.5 cents per share fully franked, payable on 7 March 2006 to shareholders on the register on 21 February 2006. The shares are expected to trade ex dividend on the stock exchange from 15 February 2006.

Comments on the Market and Investment Approach

The broad share market experienced another six months of strong growth. For example, the S&P/ASX 200 Accumulation Index increased 13.9% over the half year to 31 December 2005 reaching record highs with the biggest contributors to this increase being BHP Billiton, Rio Tinto and the Commonwealth Bank of Australia. The S&P/ASX 200 Resources Accumulation Index grew an extraordinary 27.9% in the half year. On the other hand, those sectors more reliant on the Australian domestic economy tended to have more subdued growth with consumer discretionary, consumer staples and industrials displaying single digit growth over the half.

Another interesting feature of the market was the continuing outperformance of companies outside of the top 50 by market capitalisation. Whilst the S&P/ASX 50 Leaders Accumulation Index grew 13.1%, the S&P/ASX Mid 50s Accumulation Index over the same period was up 19.1% and the Small Ordinaries Accumulation Index up 13.6%.

Banks which form a major part of AFIC's portfolio because of their strong fully franked dividend returns produced very good total returns in the six months to 31 December 2005 increasing 13.6% over the period.

AFIC's portfolio performance over this six month period as measured by growth in net asset backing plus dividends paid was 12.4%. This performance reflects the Company's lower relative weighting in the resources sector given the portfolio's concentration on the larger cap stocks with higher dividend yields.

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

	1 year	3 year	5 year	10 year
AFIC's Net Asset Backing (pre capital gains)[2]	20.7%	20.5%	14.3%	14.9%
S&P/ASX 200 Accumulation Index	22.8%	21.7%	12.7%	12.5%

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 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 less than 3% of the Company's total portfolio.

The contribution from the trading portfolio includes dividends, option premium, profits on sale of securities and under AIFRS movements (unrealised gains or losses) in the market value of the trading portfolio. In the six months to 31 December 2005 the trading portfolio provided a smaller contribution to income of approximately $5.9 million. This was below last year's contribution of $13.9 million for the corresponding period. Last year's result included $6.8 million of unrealised gains whereas unrealised gains in the six months to 31 December 2005 were only $2.0 million.

[1] Annualised to 31 December 2005
[2] Includes dividends reinvested

Investment Portfolio

The unrealised gains on the Investment Portfolio increased $354.1 million during the six month period compared with a rise of $405.6 million during the corresponding six month period last year. The key positive contributors to AFIC's performance in the December half were BHP Billiton, Commonwealth Bank, Rio Tinto, Westpac Banking Corporation and Woodside Petroleum.

During the past six months we have been increasing our exposure to companies such as AMP, Woolworths (largely as consideration for the takeover of Foodland), Promina and IAG which offer sound fully franked dividend yields. The Company also added to its holdings in the resources/energy sectors through Oil Search, BHP Billiton and Rio Tinto. The major new addition to the investment portfolio during the period was ConnectEast, a single purpose investment vehicle set up for the purpose of investing in the Mitcham-Frankston toll road project.

During last year Coles Myer decided to initiate conversion of their Reset Convertible Preference shares into ordinary shares. As a result in July 2005, our holding of $49.6 million of Coles Myer reset convertible preference shares was converted into ordinary shares. Of these, $35.6 million were sold as we decided that our overall exposure to Coles Myer had become high relative to the overall size of the investment portfolio.

Following successful takeover offers, our shares in National Foods and WMC Resources were compulsorily acquired. Furthermore our holding in Foodland was acquired as part of the scheme of arrangement with Woolworths and Metcash. As a result of these transactions we realised pre tax capital gains of $34.9 million.

As at 31 December 2005, AFIC was close to fully invested but with access to undrawn lines of credit of up to $200 million. The value of the Company's investment and trading portfolios at market value, including cash, was $4.26 billion.

Capital Changes

As a result of the reinvestment of dividends, through the dividend reinvestment plan in August 2005, 5.51 million new shares were issued at $3.90, raising $21.5 million. In November 2005, the Company also issued 16.9 million new shares through the share acquisition plan at a price of $3.96 per share. This raised $66.9 million of additional capital. During the half year the Company raised in total $88.4 million of new capital.

Outlook

The Australian economy has continued to reap the benefits of positive international economic conditions, particularly from China and Japan, as demand for resource and energy commodities has fuelled Australia's strengthening terms of trade and resources activity.

In addition the relative strength of the US economy, whilst facing increasing domestic interest rates and rising oil prices, has also provided encouragement to global equity markets during the past six months.

This has been against a background of slowing domestic consumer spending and a relatively subdued housing market, higher energy prices and a bias towards rising interest rates locally. However business and infrastructure investment has also picked up through this period providing a generally encouraging outlook in Australia. This environment has also helped underpin a healthy performance from the Australian equity market.

Whilst at this point there is nothing to suggest a dramatic change from this environment in Australia in the short term, we remain concerned about the potential for cost pressures to emerge arising from a tightening labour market, continuing high energy prices and other input costs rising. Clearly any such outcome would have implications for the level of inflation, interest rates and potentially corporate profit margins.

We still believe the market is very fully priced but we will continue to focus on companies capable of generating strong cash flows and good dividend yields. We will also look to build our holdings in companies that are capable of successfully positioning themselves to generate good returns from the changing demographic and business landscape in Australia.

Please direct any enquiries to:

Bruce Teele	Ross Barker	Geoff Driver
Chairman	Managing Director	General Manager
(03) 9679 1361	(03) 9924 0380	(03) 9679 1659

TOP INVESTMENTS AS AT 31 DECEMBER 2005

Includes investments held in both the Investment and Trading Portfolios

Top 25 Investments - Ordinary securities

			$ million
1	CBA	Commonwealth Bank of Australia	345.4
2	WBC	Westpac Banking Corporation	285.2
3	BHP	BHP Billiton	281.8
4	NAB	National Australia Bank	221.6
5	WES	Wesfarmers	181.4
6	TLS	Telstra Corporation	125.3
7	RIO	Rio Tinto	119.8
8	TOL	Toll Holdings	119.2
9	ANZ	Australia and New Zealand Banking Group	118.6
10	WOW	Woolworths	104.5
11	RIN	Rinker Group	102.7
12	CML	Coles Myer	102.1
13	AWC	Alumina	95.7
14	WPL	Woodside Petroleum	84.3
15	SGB	St George Bank	78.3
16	AMP	AMP	75.6
17	AGL	The Australian Gas Light Company	73.3
18	AMC	Amcor	69.6
19	WDC	Westfield Group	66.6
20	WAN	West Australian Newspapers Holdings	63.4
21	NWS	The News Corporation (a)	58.5
22	BIL	Brambles Industries	57.0
23	MLT	Milton Corporation	56.0
24	TCL	Transurban Group	55.9
25	CPU	Computershare	55.4
		Total	**2,997.0**
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	70.7%

(a) Includes $25.2m News Corporation Class A Non-Voting (NWSLV) Securities

Australian Foundation Investment Company Limited

ABN 56 004 147 120

Half-year Report

31 December 2005

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 John Paterson Fergus D. Ryan Stan D.M. Wallis AC Catherine M. Walter AM	
Company Secretary:	Sue Crook	
Auditor:	PricewaterhouseCoopers, Chartered Accountants	
Country of incorporation:	Australia	
Registered office:	Level 20 101 Collins Street Melbourne, Victoria 3000	
Contact Details:	Mail Address:	GPO Box 2114, 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:	Link Market Services Limited	
	Mail Address:	PO Box A2277, Sydney South, NSW 1235 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@linkmarketservices.com.au
	Internet:	www.linkmarketservices.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 and related matters, please contact the share registrar in your country.	
Stock Exchange Code:	AFI	Ordinary shares

DIRECTORS' REPORT

This report in relation to the half-year to 31 December 2005 is presented by the Directors of Australian Foundation Investment Company Limited ('the Company') in accordance with a resolution of Directors.

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
J. Paterson
F.D. Ryan
S.D.M. Wallis AC
C.M. Walter AM

Review of the Company's operations and results

Overview

The Company maintains a diversified portfolio of equity and similar securities, predominantly in entities listed on the Australian Stock Exchange. There has been no change in the nature of the Company's activities during the year. Its primary objectives are to pay dividends which, over time, will grow at a faster rate than inflation, and to generate attractive total returns in terms of growth in net asset backing plus dividends.

Profit Performance and Dividend

Under the new accounting standards which came into force on 1 July 2005 the reported profit after tax of the Company for the six months to 31 December 2005 was $118.0 million. However, this figure includes after-tax profits on the sale of securities from the investment portfolio of $31.7 million.

Net operating profit before capital gains, which the Board feels is more representative of the underlying business and investment performance of the Company, increased to $87.0 million or 8.0% over the equivalent number of $80.6 million last year. The operating profit per share for the six months to 31 December 2005 was 9.5 cents per share.

The Company has declared an interim fully franked dividend of 6.5 cents per share, an increase of 0.5 cents on last year's interim dividend of 6.0 cents per share.

Market conditions

In looking forward, we believe the Australian market is looking somewhat fully priced in absolute and in relative terms to key offshore markets. However we also recognise for the most part the market is being underpinned by strong corporate profits and balance sheets, and also the high levels of cash being generated though compulsory superannuation which is invariably finding its way back into the market, including the expanding level of alternate and more highly leveraged asset classes. In this environment we are taking a cautious approach as we remain concerned about the potential of emerging cost pressures impacting profit margins and inflationary expectations impacting interest rate settings. In this context we are also concerned about the increasing use of leverage and whether the market is effectively pricing in this leverage risk into some of these vehicles.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

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.

Bruce B. Teele
Chairman
Melbourne
8 February 2006

INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note		Half-year 2005 $'000		Half-year 2004 $'000
Revenue from investment portfolio			88,181		73,023
Revenue from deposits and bank bills			684		1,691
Income from trading portfolio					
Revenue from trading portfolio		2,405		3,396	
Net realised gains		1,552		3,711	
Net unrealised gains		1,991	5,948	6,832	13,939
Income from operating activities before capital gains/(losses)			**94,813**		**88,653**
Other income			620		469
Finance costs			(1,498)		(136)
Administration expenses			(3,109)		(2,591)
Operating profit before income tax expense and capital gains/(losses)	**3**		**90,826**		**86,395**
Income tax expense			**(3,844)**		**(5,823)**
Net operating profit before capital gains/(losses)			**86,982**		**80,572**
Capital Gains/(Losses)					
Net realised gains on Ordinary Securities in the investment portfolio			40,673		1,568
Net losses on Other Securities in the investment portfolio			(1,591)		(64)
Tax expense on above			(8,024)		(193)
Net Capital Gains			**31,058**		**1,311**
Profit attributable to members of the company			**118,040**		**81,883**
			Cents		**Cents**
Basic earnings per share	**8**		12.86		9.06
Basic net operating profit per share	**8**		9.47		8.91

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

BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	31 Dec 2005 $'000	30 June 2005 $'000
Current assets			
Cash		17,042	26,222
Receivables		7,366	20,114
Trading portfolio	**4**	112,032	118,432
Total current assets		**136,440**	**164,768**
Non-current assets			
Investment portfolio		4,128,412	3,651,168
Deferred tax assets		1,234	822
Total non-current assets		**4,129,646**	**3,651,990**
Total assets		**4,266,086**	**3,816,758**
Current liabilities			
Payables		1,096	6,134
Tax payable		12,931	8,019
Borrowings		-	17,000
Provisions		429	402
Total current liabilities		**14,456**	**31,555**
Non-current liabilities			
Payables		721	708
Deferred tax liabilities - investment portfolio	**5**	619,478	507,892
Deferred tax liabilities - other		718	3,384
Total non-current liabilities		**620,917**	**511,984**
Total liabilities		**635,373**	**543,539**
Net Assets		**3,630,713**	**3,273,219**
Shareholders' equity			
Share Capital	**6**	1,500,300	1,412,137
Revaluation Reserve		1,661,362	1,419,174
Realised Capital Gains Reserve		240,124	214,737
General Reserve		23,637	23,637
Retained Profits		205,290	203,534
Total shareholders' equity		**3,630,713**	**3,273,219**

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

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Share Capital ($000)	Revaluation Reserve ($000)	Realised Capital Gains Reserve ($000)	Retained Profits ($000)	General Reserve ($000)	Total ($000)
As at 1 July 2004	**1,379,848**	**1,018,696**	**206,135**	**171,893**	**23,637**	**2,800,209**
Dividends paid			(9,445)	(69,264)		
Dividend Reinvestment Plan	19,447					
Transactions with Equity Holders in their capacity as Equity Holders	*19,447*		*(9,445)*	*(69,264)*		**(59,262)**
Other Share Capital adjustments	(135)					**(135)**
Revaluation of investment portfolio		405,595				
Provision for tax on unrealised gains		(123,053)				
Total Direct Equity Adjustments		*282,542*				
Profit for the period				81,883		
Total Income for Period		*282,542*		*81,883*		**364,425**
Transfers between Reserves			1,311	(1,311)		-
As at 31 December 2004	**1,399,160**	**1,301,238**	**198,001**	**183,201**	**23,637**	**3,105,237**

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

	Share Capital ($000)	Revaluation Reserve ($000)	Realised Capital Gains Reserve ($000)	Retained Profits ($000)	General Reserve ($000)	Total ($000)
As at 31 December 2004	**1,399,160**	**1,301,238**	**198,001**	**183,201**	**23,637**	**3,105,237**
Dividends paid				(54,326)		
Dividend Reinvestment Plan	12,972					
Transactions with Equity Holders in their capacity as Equity Holders	*12,972*			*(54,326)*		**(41,354)**
Other Share Capital adjustments	5					**5**
Revaluation of investment portfolio		169,061				
Provision for tax on unrealised gains		(51,125)				
Total Direct Equity Adjustments		*117,936*				
Profit for the period				91,395		
Total Income for Period		*117,936*		*91,395*		**209,331**
Transfers between Reserves			16,736	(16,736)		-
As at 30 June 2005	**1,412,137**	**1,419,174**	**214,737**	**203,534**	**23,637**	**3,273,219**

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

	Share Capital ($000)	Revaluation Reserve ($000)	Realised Capital Gains Reserve ($000)	Retained Profits ($000)	General Reserve ($000)	Total ($000)
As at 30 June 2005	**1,412,137**	**1,419,174**	**214,737**	**203,534**	**23,637**	**3,273,219**
Dividends paid			(6,363)	(84,534)		
Dividend Reinvestment Plan	21,486					
Share Acquisition Plan	66,950					
Transactions with Equity Holders in their capacity as Equity Holders	*88,436*		*(6,363)*	*(84,534)*		**(2,461)**
Other Share Capital adjustments	(273)					**(273)**
Revaluation of investment portfolio		354,071				
Provision for tax on unrealised gains		(111,883)				
Total Direct Equity Adjustments		*242,188*				
Profit for the period				118,040		
Total Income for Period		*242,188*		*118,040*		**360,228**
Transfers between Reserves			31,750	(31,750)		**-**
As at 31 December 2005	**1,500,300**	**1,661,362**	**240,124**	**205,290**	**23,637**	**3,630,713**

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

STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Half-year 2005 $'000 INFLOWS/ (OUTFLOWS)	Half-year 2004 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		31,898	59,130
Purchases for trading portfolio		(22,664)	(52,230)
Interest received		3,266	5,273
Dividends and distributions received		98,700	86,898
		111,200	99,071
Other receipts		620	469
Administration expenses		(2,928)	(2,872)
Finance costs paid		(1,421)	(136)
Income taxes paid		(10,164)	(11,328)
Net cash inflow/(outflow) from operating activities		**97,307**	**85,204**
Cash flows from investing activities			
Sales from investment portfolio		134,741	44,167
Purchases for investment portfolio		(221,821)	(184,089)
Net cash inflow/(outflow) from investing activities		**(87,080)**	**(139,922)**
Cash flows from financing activities			
Proceeds from borrowings		120,000	-
Repayment of borrowings		(137,000)	-
Share issues		66,950	-
Share issues transaction costs		(199)	(15)
Payment for shares bought back		(4)	(25)
Dividends paid		(69,154)	(59,183)
Net cash inflow/(outflow) from financing activities		**(19,407)**	**(59,223)**
Net increase/(decrease) in cash held		(9,180)	(113,941)
Cash at the beginning of the half-year		26,222	134,490
Cash at the end of the half-year		**17,042**	**20,549**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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 134 *Interim Financial Reporting* 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 2005 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 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
Market Value	Fair Value for Actively Traded Securities

This half-year financial report is the first to be prepared in accordance with AIFRS (Australian Equivalents to International Financial Reporting Standards). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The Company's financial statements until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the financial statements for the half-year ended 31 December 2005 the Company has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. The Company has not taken advantage of the exemption available under AASB 1 to defer application of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Company's equity and net income are given in Note 11.

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 discrete portfolios of securities, the trading portfolio and the investment portfolio. The purchase and the sale of securities are accounted for at the date of trade.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts that are entered into, as described in Note 4.

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

Ordinary securities within the investment portfolio are classified as 'assets available for sale', whereas securities that contain a derivative element (eg Convertible Notes) and the trading portfolio are classified as 'assets measured at fair value through the Income Statement'.

(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 on Ordinary Securities are taken to the 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 Revaluation Reserve to the Income Statement.

Increments and decrements on the value of the securities that contain a derivative element (known as 'Hybrids') are taken directly through the Income Statement.

(iii) *Valuation of trading portfolio*

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

All securities in the trading portfolio are revalued to market values continuously.

Increments and decrements on the value of securities in the trading portfolio are taken directly through the Income Statement.

(iv) *Income from holdings of securities*

Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis and distributions relating to unlisted securities are recognised as income when received unless the distributions are capital returns on ordinary shares in which case the amount of the distribution is treated as an adjustment to the carrying value of the shares.

The realised gain or loss on options written is not recognised until the option expires, is exercised or is repurchased from the holder. All unrealised gains or losses which represent movements in the Market Value of the options are recognised through the Income Statement.

c) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to the unused tax losses. Deferred tax assets and liabilities are offset where they are expected to reverse in the same period.

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Income Statement – ie hybrids and the trading portfolio.

A provision has to be made for any taxes that could arise on disposal of securities in the investment portfolio, even though there is no intention to dispose of them. Where the

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.

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) 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 amortised cost using the effective interest rate method, and the amortised interest is accounted for accounted for as interest received.

f) 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.

The fair value for assets that are actively traded on market is defined by AASB 139 as 'last bid price'.

g) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave that could 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash incentives

Cash incentives are provided under the Executive Short Term Incentive plan and are dependent upon the performance of the Company. A provision is made for the cost of cash incentives at balance date.

(iv) Share incentives

Share incentives are provided under the Executive Short Term and Long Term Incentive plans and the Employee Share Acquisition Scheme.

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

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.

h) Directors' retirement allowances

The Company recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

i) 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.

j) 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. Financial reporting by segments

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

3. Operating profit

	Half-year 2005 $'000	Half-year 2004 $'000
Operating profit is comprised of the following:		
Dividends and distributions		
• securities held in investment portfolio	85,590	70,480
• securities held in trading portfolio	2,405	3,378
	87,995	73,858
Interest income		
• securities held in investment portfolio	2,591	2,543
• securities held in trading portfolio	-	18
• deposits and income from bank bills	684	1,691
	3,275	4,252
Net gains/(losses)		
• net gains from trading portfolio sales	1,552	3,711
• unrealised gains/losses in trading portfolio	1,991	6,832
	3,543	10,543
Administration fees	620	469
Operating income	95,433	89,122
Finance costs	(1,498)	(136)
Administration expenses	(3,109)	(2,591)
Operating profit before income tax expense	**90,826**	**86,395**

4. Current assets – trading portfolio

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.

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, if they were exercised, certain securities at prices which in aggregate totalled $2.8 million (2004: $5.8 million). As at balance date there were call options outstanding which potentially required the Company, if they were exercised, to deliver securities to the value of $86.3 million (2004: $121.6 million) held by the Company in its trading portfolio.

5. Deferred tax liabilities – investment portfolio

If the investment portfolio had been sold immediately after balance date a net capital gains tax liability of $619.5 million based upon a tax rate of 30% (30 June 2005: $507.9 million) would have arisen and is provided for in accordance with Accounting Standards. 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.

6. Shareholders' equity – share capital

	31 Dec 2005 Shares '000	31 Dec 2005 $'000	30 June 2005 Shares '000	30 June 2005 $'000
(a) Share Capital				
Ordinary shares – fully paid	931,380	1,500,608	908,965	1,412,375
Less ELTIP shares adjustment	-	(308)	-	(238)
	931,380	1,500,300	908,965	1,412,137

ELTIP is the Executive Long Term Incentive Plan

(b) Movements in Share Capital of the Company during the half-year were as follows:

Date	Details	Notes	Number of shares '000	Issue price	Paid-up Capital $'000
01/07/2005	Opening Balance		908,965		1,412,375
23/08/2005	Dividend Reinvestment Plan	i	5,509	3.90	21,486
04/11/2005	Share Acquisition Plan	ii	16,907	3.96	66,950
Various	Buy-backs	iii	(1)		(4)
Various	Cost of share issues		-		(199)
31/12/2005	Balance		931,380		1,500,608

i The Company has a Dividend Reinvestment Plan under which shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was 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.

ii The Company issued shares to existing shareholders under a Share Acquisition Plan by which shareholders could purchase up to 1,262 shares at a price set at a 2.5% discount to the average selling price of shares traded on the Australian Stock Exchange in the five days up to and including the record date of 16 September 2005.

iii The Company introduced an on-market Buy-Back Programme in December 2000. During half-year ended 31 December 2005 the Company had bought back 1,000 shares at an average price of $4.26. During the corresponding period in 2004, 7,534 shares were bought back at an average price of $3.29.

(c) Movements in ELTIP shares adjustment during the half-year were as follows:

Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
01/07/2005	$238,488	-	$(39,606)	-	-	$198,882
14/10/2005	-	$116,113	$(7,258)	-	-	$108,855
Total	$238,488	$116,113	$(46,864)	-	-	$307,737

7. Dividends

	Half-year 2005 $000	Half-year 2004 $000
Dividends provided for or paid during the period	90,897	78,709

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 6.5 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 7 March 2006, but not recognised as a liability at the end of the half-year is	60,540	

8. Earnings per Share

	Half-year 2005	Half-year 2004
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	918,094,733	903,836,741
Basic earnings per share		
	$'000	**$'000**
Profit attributable to members of the company	118,040	81,883
	Cents	**Cents**
Basic earnings per share	12.86	9.06
Net operating profit per share		
	$'000	**$'000**
Net operating profit	86,982	80,572
	Cents	**Cents**
Net operating profit per share	9.47	8.91

9. Events subsequent to balance date

Since 31 December 2005 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.

10. 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.

11. Explanation of Transition to Australian equivalents to IFRS ("AIFRS").

In preparing the opening AIFRS compliant balance sheet, adjustments have been made to the figures previously reported in the 30 June 2005 financial report. The impacts of the adoption on the total equity brought forward and 2005 Profit after tax reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") are illustrated below :

i) Income Statement for Half-Year Ended 31 December 2004

($'000)	AGAAP	Adj.	AIFRS
Revenue from investment portfolio	73,023		73,023
Income from trading portfolio c)	7,108	6,831	13,939
Revenue from Deposits & Bank Bills	1,691		1,691
Other income	469		469
Total income from ordinary activities	**82,291**	**6,831**	**89,122**
Administration & borrowing expenses	(2,727)		(2,727)
Operating profit	**79,564**	**6,831**	**86,395**
Income tax expense d)	**(3,774)**	**(2,049)**	**(5,823)**
Net operating profit	**75,790**	**4,782**	**80,572**
Realised Gains on Ordinary Securities in investment portfolio f)		1,568	1,568
Net Gains on Other Securities in investment portfolio b) & f)		(64)	(64)
Tax on gains in investment portfolio f)		(193)	(193)
Net Profit	**75,790**	**6,093**	**81,883**
Direct adjustments against equity			
Realised gains/(losses) on investment portfolio (net of tax) f)	1,356	(1,356)	
Unrealised gains/(losses) on investment portfolio (net of tax) e)	405,531	(122,989)	282,542
Total valuation adjustments recognised directly in equity	**406,887**	**(124,345)**	**282,542**
Net profit plus direct equity adjustments	**482,677**	**(118,252)**	**364,425**

Income Statement for Year Ended 30 June 2005

($'000)	AGAAP	Adj.	AIFRS
Revenue from investment portfolio	151,305		151,305
Income from trading portfolio c)	21,245	(3,292)	17,953
Revenue from Deposits & Bank Bills	2,047		2,047
Other income	1,005		1,005
Total income from ordinary activities	**175,602**	**(3,292)**	**172,310**
Administration & borrowing expenses	(5,517)		(5,517)
Operating profit	**170,085**	**(3,292)**	**166,793**
Income tax expense d)	**(11,245)**	**987**	**(10,258)**
Net operating profit	**158,840**	**(2,305)**	**156,535**
Realised Gains on Ordinary Securities in investment portfolio f)		16,980	16,980
Net Gains on Other Securities in investment portfolio b) & f)		407	407
Tax on gains in investment portfolio f)		(644)	(644)
Net Profit	**158,840**	**14,438**	**173,278**
Direct adjustments against equity			
Realised gains/(losses) on investment portfolio (net of tax) f)	17,252	(17,252)	
Unrealised gains/(losses) on investment portfolio (net of tax) e)	573,929	(173,451)	400,478
Total valuation adjustments recognised directly in equity	**591,181**	**(190,703)**	**400,478**
Net profit plus direct equity adjustments	**750,021**	**(176,265)**	**573,756**

ii) Balance Sheet

	AGAAP			Adjustment			AIFRS		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	1/07/04	31/12/04	30/06/05	1/07/04	31/12/04	30/06/05	1/07/04	31/12/04	30/06/05
Trading portfolio a)	151,301	147,366	107,156	14,568	21,400	11,276	165,869	168,766	118,432
Deferred tax asset	1,855	2,472	822				1,855	2,472	822
Investment Portfolio	2,828,699	3,377,097	3,651,168				2,828,699	3,377,097	3,651,168
Other assets	156,128	27,281	46,336				156,128	27,281	46,336
Total assets	**3,137,983**	**3,554,216**	**3,805,482**	**14,568**	**21,400**	**11,276**	**3,152,551**	**3,575,616**	**3,816,758**
Deferred tax liability d)& e)	0	0	0	(338,303)	(463,386)	(511,276)	(338,303)	(463,386)	(511,276)
Other liabilities	(14,039)	(6,993)	(32,263)				(14,039)	(6,993)	(32,263)
Total liabilities	**(14,039)**	**(6,993)**	**(32,263)**	**(338,303)**	**(463,386)**	**(511,276)**	**(352,342)**	**(470,379)**	**(543,539)**
Net assets	**3,123,944**	**3,547,223**	**3,773,219**	**(323,735)**	**(441,986)**	**(500,000)**	**2,800,209**	**3,105,237**	**3,273,219**
Shareholders' equity									
Share Capital	1,379,848	1,399,160	1,412,137				1,379,848	1,399,160	1,412,137
Reserves	1,592,394	1,989,836	2,174,130	(550,061)	(664,961)	(731,319)	1,042,333	1,324,875	1,442,811
Retained Earnings[1] f)	151,702	158,227	186,952	226,326	222,975	231,319	378,028	381,202	418,271
Total shareholders' equity	**3,123,944**	**3,547,223**	**3,773,219**	**(323,735)**	**(441,986)**	**(500,000)**	**2,800,209**	**3,105,237**	**3,273,219**

[1] Includes Realised Capital Gains

iii) Statement of Cash Flows

The adoption of AIFRS has not resulted in any material adjustments to the statement of cash flows for the year ended 30 June 2005.

iv) Explanatory Notes

(a) Investments Measured at Market Value

All Investments (including the Trading Portfolio) are measured at Market Value. The Accounting Standard (AASB 139) defines 'Last Bid Price' as the relevant Market Value.

(b) Hybrids and Convertible Securities

Where Hybrids and Convertible Securities that contain a derivative element are included in the Investment Portfolio, any unrealised gains or losses on these securities are included in the Income Statement rather than as an adjustment through the Revaluation Reserve as is the case with other securities held in the Investment Portfolio.

(c) Unrealised Gains/Losses on the Trading Portfolio

All unrealised gains or losses on the Trading Portfolio are included in the Income Statement for that period.

(d) Provision for Deferred Tax on Unrealised Gains/Losses in the Income Statement

A provision for the tax that would be due on unrealised gains or the credit receivable on unrealised losses that are included in the Income Statement is made on the Balance Sheet, and changes to this provision are reflected in the Income Statement.

(e) Provision for Deferred Capital Gains Tax on Unrealised Gains through the Revaluation Reserve

A provision for the tax that would be due on unrealised gains or the credit receivable on unrealised losses that are included in the Revaluation Reserve is made on the Balance Sheet, and changes to this provision are reflected directly through equity.

(f) Realised Gains or Losses on Securities in the Investment Portfolio

All realised gains or losses, and the tax payable/tax credit receivable thereon, are accounted for through the Income Statement, and are therefore part of the Profit Attributable to Members. The net gains/losses may be transferred through reserves from Retained Earnings to the Realised Capital Gains Reserve which is also available for distribution. Any Listed Investment Company gains ("LIC gains") that are paid to shareholders as part of a dividend will be sourced from the Realised Capital Gains Reserve.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 20 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the Company's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; 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.

Bruce B. Teele
Chairman
Melbourne
8 February 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half year ended 31 December 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 review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Foundation Investment Company Limited during the period.

Simon Gray
Partner
PricewaterhouseCoopers

Melbourne
8 February 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

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 2005 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 134: *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 balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Australian Foundation Investment Company Limited ("the Company"), for the half-year ended 31 December 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.

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. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

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 134: *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.

PRICEWATERHOUSECOOPERS

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.

Our procedures include reading the other information included with the financial report 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

PricewaterhouseCoopers
Chartered Accountants

Simon Gray
Partner

Melbourne
8 February 2006