Australian Foundation
INVESTMENT COMPANY

26 July 2006

The Manager

Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Australian Foundation Investment Company
Full year results announcement

Dear Sir or Madam

Please find attached Appendix 4E, financial statements and media release for the Company for the year ended 30 June 2006.

Yours sincerely,

Sue Crook
Company Secretary & General Counsel

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Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2006

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2006 with the corresponding period being the year ended 30 June 2005. 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

- Revenue from operating activities was $188.9 million, 17.9% up from the prior year.
- Operating profit after tax was $179.6 million, 14.8% up from the prior year.
- Net profit (including capital gains) was $214.1 million, 23.5% up from the prior year.
- The interim dividend of 6.5 cents per share was paid to shareholders on 7 March 2006.
- A final dividend of 10.5 cents per share will be paid on 23 August 2006 to shareholders on the register on 9 August 2006. The shares are expected to trade ex-dividend on 2 August 2006. The final dividend carries with it an attributable LIC capital gain of 2 cents.
- The total dividend for the financial year is therefore 17 cents, fully-franked, compared with 16 cents, also fully-franked, for the previous financial year.
- 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 after the shares trade ex-dividend. The last day for notice of participation in the DRP is the record date, being 9 August 2006.

Australian Foundation
INVESTMENT COMPANY

MEDIA RELEASE - FULL YEAR RESULT

26 July 2006

THREE YEARS OF STRONG PORTFOLIO GROWTH FOR AFIC – ANNOUNCES DIVIDEND LIFT

Australian Foundation Investment Company today announced its financial results for the financial year to 30 June 2006.

Under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the reported profit after tax of the Company for the twelve months to 30 June 2006 was $214.1 million. This figure includes after tax profits on the realisation of securities from the investment account of $34.5 million which are required to be included as profit under these new standards. Previously such gains were credited directly to shareholders equity.

Operating profit after tax, which excludes capital gains and is more reflective of underlying income growth, increased to $179.6 million or 14.8% over the equivalent number of $156.5 million last year. The operating profit per share for the twelve months to 30 June 2006 was 19.4 cents per share. Total dividends for the year are 17 cents per share.

SUMMARY OF RESULTS

- Operating Profit after tax was $179.6 million (last year $156.5 million), up 14.8%.
- AIFRS Reported Profit after tax was $214.1 million (last year $173.3 million), up 23.5%. This includes realised gains on the sale of investments.
- Earnings per share based on Operating Profit were 19.4 cents, an increase of 12.3% over 17.3 cents last year.
- A fully franked final dividend of 10.5 cents per share will be paid on 23 August 2006. This is an increase of 0.5 cents over last year's final dividend of 10.0 cents. The final dividend carries with it an attributable LIC capital gain of 2 cents per share which enables some shareholders to claim a tax deduction. The total dividend for the financial year is 17 cents, fully-franked, compared with 16 cents, also fully-franked, for the previous financial year.
- Total shareholder return measured by the change in share price plus reinvested fully franked dividends over the year was up 29.4%
- Total portfolio return over the year (measured by change in net asset backing per share plus fully franked dividends reinvested) was an increase of 20.5% after tax and management fees.
- Net asset backing at 30 June 2006 was $4.82 pre capital gains tax (before allowing for the 10.5 cent final 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 30 June 2006 was $4.51 billion.

Chairman's Comments

The Chairman, Mr Bruce Teele noted "The completion of this financial year has brought to an end another remarkable year in the Australian equity market. We have now witnessed three years of 20% plus growth in returns on the back of a healthy domestic economy, robust global conditions and for the most part the sound position of company profits and balance sheets.

During the year, the market displayed considerable strength with the resources and energy sectors in particular displaying exceptionally strong growth. The strength of these sectors also provided impetus to the remainder of the domestic economy particularly in the resource rich states.

From our perspective we have been confident for some time about the medium term prospects of these sectors with continued demand likely to be driven from China and other emerging economies such as India. Whilst we recognise there has been some speculative build up in the prices of a number of commodities we are long term investors and prefer to look at the long term value of companies and particularly the value of business footprints. As a result, we have been progressively increasing our exposure over the year to companies like Rio Tinto, BHP Billiton and Oil Search which are not only enjoying the benefits of increased demand and rising resource prices but are also in a position to provide increasing dividends over time.

The theme of the long term value of a company based on its inherent franchise value and long term cash flows is one we have been focussing on more and more as the market trades at record highs and where we believe risk has sometimes been overlooked. We try to avoid market exuberance where the focus is more on short term valuations and performance metrics that can underestimate the long term value of companies. We have continued to focus on investing further in companies with sound franchises, within good industries and strong cash flows, which is generally a good precursor to increasing dividends. In this vein we added to our holdings in companies such as AMP, Woolworths, Promina, IAG and Rural Press. In addition the Company has also continued to build positions in smaller entities such as ConnectEast and Hastings Diversified Utilities. The Company was close to fully invested at 30 June 2006. "

Outlook

In looking to the new financial year, we believe investors are unlikely to see a repeat of such strong returns across the market. Whilst domestic and global economies are expected to perform well we suspect that investors are becoming concerned about valuations and are thinking more about risk within the pricing of securities. This trend has been evidenced by the more recent increase in volatility of equity markets and a widening of credit margins in debt markets. In addition the present geopolitical instability is a disturbing development which will only add to this uncertainty.

We remain concerned about the potential of emerging cost pressures to reduce profit margins and inflationary expectations pushing interest rates higher. In our view these concerns are likely to persist over the coming year, and given current market valuations, we are anticipating total returns for the Australian equity market to be close to long term averages.

Profit Performance

Using the Australian equivalents to International Financial Reporting Standards (AIFRS) the profit for the 12 months to 30 June 2006 was $214.1 million compared with $173.3 million for the full year to 30 June 2006. 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 $179.6 million, an increase of $23.1 million or 14.8% 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. Total income from investments which includes these fully franked dividends and distributions was $199.7 million up from $172.3 million, primarily reflecting increased distributions from a number of companies in the portfolio.

The result for Net Operating Profit this year represents an increase in net operating profit per share of 12.3% to 19.4 cents per share from 17.3 cents per share over the corresponding period last year. Of total earnings per share, 1.7 cents per share was derived from the trading account (before tax and expenses) and 1.6 cents per share from special dividends & distributions (also before tax and expenses).

Dividends

Directors have declared a final dividend of 10.5 cents per share fully franked. This carries with it an attached attributable LIC capital gain of 2 cents per share, payable on 23 August 2006 to shareholders on the register on 9 August 2006. The shares are expected to trade ex dividend on the stock exchange from 2 August 2006. This produces total dividends for the year of 17 fully franked cents per share.

Trading Portfolio

With the market trading at record highs during the period and the Company's view that short term valuations in general were somewhat stretched, the Company adopted a conservative approach to the trading portfolio over the year. As a result, the trading portfolio averaged less than 3% of the Company's total portfolio over the year.

The contribution from the trading portfolio includes dividends, option premiums, profits on sale of securities and under AIFRS movements (unrealised gains or losses) in the market value of the trading portfolio. In the twelve months to 30 June 2006 the trading portfolio provided a smaller contribution to income of approximately $15.3 million. This was below last year's contribution of $17.9 million for the corresponding period.

Investment Portfolio

The unrealised gains on the Investment Portfolio increased $561.7 million during the twelve month period compared with a rise of $574.7 million last year. The key positive contributors to AFIC's performance over the year were BHP Billiton, Commonwealth Bank, Westpac Banking Corporation, Rio Tinto and Woodside Petroleum.

During the past twelve months the Company added to its holdings in the resources/energy sectors through Oil Search, BHP Billiton and Rio Tinto. We also increased our exposure to companies such as AMP, Woolworths (largely as consideration for the takeover of Foodland), Promina, IAG and Rural Press.

The Company has also continued to add new companies to its Investment Portfolio and build on similar positions established from the previous year. These offer exposure to good companies in industries which we believe have sound long term growth prospects. Given the continuance of a high level of merger and takeover activity these companies also help to maintain the diversity of the portfolio which we believe is an important feature of AFIC's investment approach.

The major additions to the investment portfolio in this category were ConnectEast, a single purpose investment vehicle set up for the purpose of investing in the Mitcham-Frankston toll road project and Hastings Diversified Utilities, an investor in utility assets. In addition new companies added to the investment portfolio were:

Metcash (as a result of the takeover of Foodland) – Marketing and distribution company operating in the food and fast moving consumer goods industries
Baxter Group – Waste Management
DCA Group – Aged care and diagnostic imaging
Dyno Nobel – Commercial explosives
Sonic Healthcare – Pathology and radiology services
Cedar Woods – Property development and investment (primarily in WA)

These investments are still relatively small in the context of the overall size of AFIC's portfolio but these purchases allow us to gain more exposure to their management, performance and importantly insights into their long term aspirations.

The Company also converted approximately $10 million of Djerriwarrh unsecured convertible notes into ordinary shares given the conversion price of $3.90 per share and the attractive fully franked yield on these shares.

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, $37.1 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 30 June 2006, AFIC was close to fully invested but with access to lines of credit of up to $200 million. The value of the Company's investment and trading portfolios at market value, including cash, was $4.51 billion.

Establishment of a Services Company

As at 1 July 2006, AFIC has established a services company called Australian Investment Companies Group (AICG). AICG has also applied to ASIC for an Australian Financial Services Licence. This will provide greater flexibility in the promotion of investment companies amongst the general investment market, potentially permits wider distribution for any capital issues and allows for the underwriting of securities issues.

The setting up of this subsidiary will also facilitate the establishment of formal agreements between AFIC and the other listed investment companies, Djerriwarrh Investments, Mirrabooka Investments and AMCIL Limited, for the provision of administration and other support services that are currently provided directly by AFIC. In establishing AICG there is no material change to the recoupment of expenses from these other listed investment companies.

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

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 30 JUNE 2006

Top 25 Investments - Ordinary securities

			Total Value $ million
1	BHP	BHP Billiton	370.5
2	CBA	Commonwealth Bank of Australia	358.9
3	WBC	Westpac Banking Corporation	288.9
4	NAB	National Australia Bank	240.5
5	WES	Wesfarmers	173.3
6	RIO	Rio Tinto	148.4
7	ANZ	Australia and New Zealand Banking Group	129.7
8	WOW	Woolworths	125.0
9	TLS	Telstra Corporation	117.5
10	TOL	Toll Holdings	115.8
11	CML	Coles Myer	111.9
12	RIN	Rinker Group	104.6
13	WPL	Woodside Petroleum	94.6
14	AWC	Alumina	88.1
15	AMP	AMP	83.3
16	SGB	St George Bank	76.0
17	AGL	The Australian Gas Light Company	69.5
18	WAN	West Australian Newspapers Holdings	67.0
19	CPU	Computershare	64.0
20	WDC	Westfield Group	63.6
21	BIL	Brambles Industries	63.5
22	AMC	Amcor	61.6
23	TCL	Transurban Group	61.1
24	ORI	Orica	57.6
25	MLT	Milton Corporation	57.5
		Total	**3,192.3**
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	70.7%

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 $'000	2005 $'000
Dividends and distributions		186,882	157,163
Revenue from deposits and bank bills		817	2,047
Other revenue		1,249	1,005
Total revenue		188,948	160,215
Net gains on trading portfolio		10,737	12,095
Income from operating activities before net gains on investments		199,685	172,310
Finance costs		(2,218)	(534)
Administration expenses		(6,254)	(4,983)
Operating profit before income tax expense and net gains on investments	**4**	191,213	166,793
Income tax expense*	**5**	(11,569)	(10,258)
Net operating profit before net gains on investments		179,644	156,535
Net gains/(losses) on investments			
Net gains on Ordinary Securities sold from the investment portfolio		46,297	16,980
Net gains/(losses) on Other Securities		(2,813)	407
Tax expense on net gains on investments*	**5**	(9,061)	(644)
		34,423	16,743
Profit for the year		214,067	173,278

	Cents	Cents
Basic earnings per share	23.14	19.13
Diluted earnings per share	23.14	19.13

Information on earnings per share, including net operating profit before net gains on investments per share, can be found in **Note 25**.

	2006 $'000	2005 $'000
* Total tax expense	20,630	10,902

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

BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 $'000	2005 $'000
Current assets			
Cash	**6**	738	26,222
Receivables	**7**	41,548	20,114
Trading portfolio	**8**	101,824	118,432
Interest-rate Hedging Contracts	**21**	186	-
Total current assets		**144,296**	**164,768**
Non-current assets			
Fixtures & fittings	**9**	899	-
Investment portfolio	**10**	4,411,045	3,651,168
Total non-current assets		**4,411,944**	**3,651,168**
Total assets		**4,556,240**	**3,815,936**
Current liabilities			
Payables	**12**	4,107	6,815
Tax payable		14,557	8,019
Borrowings	**6**	41,000	17,000
Provisions	**13**	502	402
Total current liabilities		**60,166**	**32,236**
Non-current liabilities			
Provisions	**14**	83	27
Deferred tax liabilities - investment portfolio	**15**	682,048	507,892
Deferred tax liabilities - other	**16**	1,015	2,562
Total non-current liabilities		**683,146**	**510,481**
Total liabilities		**743,312**	**542,717**
Net Assets		**3,812,928**	**3,273,219**
Shareholders' equity			
Share Capital	**17**	1,501,656	1,412,137
Revaluation Reserve	**18**	1,806,548	1,419,174
Realised Capital Gains Reserve	**19**	243,400	214,737
General Reserve	**20**	23,637	23,637
Interest-rate Hedging Reserve	**21**	186	-
Retained Profits	**22**	237,501	203,534
Total shareholders' equity		**3,812,928**	**3,273,219**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 $'000	2005 $'000
Total equity at the beginning of the year		**3,273,219**	**2,800,209**
Dividends paid	**24**	(151,437)	(133,035)
Shares issued - Dividend Reinvestment Plan	**24**	35,882	32,419
- Share Acquisition Plan	**17**	66,949	-
On-market share buy-backs	**17**	(13,000)	(25)
Other Share Capital Adjustments	**17**	(312)	(105)
Total transactions with equity holders in their capacity as equity holders		**(61,918)**	**(100,746)**
Revaluation of investment portfolio		561,711	574,656
Provision for tax on unrealised gains		(174,337)	(174,178)
Net unrealised gains recognised directly in equity	**18**	387,374	400,478
Profit for the year		214,067	173,278
Net movement in fair value for interest rate swaps	**21**	186	-
Total recognised income (including unrealised gains) & expense for the year		**601,627**	**573,756**
Total equity at the end of the financial year		**3,812,928**	**3,273,219**

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 $'000 INFLOWS/ (OUTFLOWS)	2005 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		75,279	133,538
Purchases for trading portfolio		(50,797)	(74,445)
Interest received		5,975	8,167
Dividends and distributions received		163,836	151,205
		194,293	218,465
Other receipts		1,249	1,005
Administration expenses		(6,280)	(5,249)
Finance costs paid		(2,156)	(642)
Income taxes paid		(15,637)	(13,855)
Net cash inflow/(outflow) from operating activities	**30**	**171,469**	**199,724**
Cash flows from investing activities			
Sales from investment portfolio		161,355	101,514
Purchases for investment portfolio		(319,674)	(325,786)
Payment for fixtures & fittings		(932)	-
Net cash inflow/(outflow) from investing activities		**(159,251)**	**(224,272)**
Cash flows from financing activities			
Proceeds from borrowings		208,500	55,000
Repayment of borrowings		(184,500)	(38,000)
Share issues		66,949	-
Share issues transaction costs		(219)	(40)
Payment for shares bought back		(13,000)	(25)
Dividends paid		(115,432)	(100,655)
Net cash inflow/(outflow) from financing activities		**(37,702)**	**(83,720)**
Net increase/(decrease) in cash held		(25,484)	(108,268)
Cash at the beginning of the financial-year		26,222	134,490
Cash at the end of the financial-year	**6**	**738**	**26,222**

This Cash Flow Statement should be read in conjunction with the accompanying notes.

1. Summary of significant accounting 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 Interpretations and the *Corporations Act 2001*. This financial report has been authorised for issue as per the Directors Declaration and is presented in the Australian currency. The Company has the power to amend and reissue the financial report.

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
Cash	Cash & Cash Equivalents
Share Capital	Contributed Equity

This financial report has been 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.

Compliance with AIFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS).

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 year ended 30 June 2006 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: 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 33.

The Company has elected to adopt AASB 7 - *Financial Instruments: Disclosures* early when preparing the financial statements. The Company has not yet applied any other Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2006 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. This includes the amended *AASB 139 – Financial Instruments: Recognition and Measurement*. The Company only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

a) Basis of accounting

The financial statements are prepared using the valuation methods described below for holdings of securities, including options. 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 investment portfolio and the trading portfolio. The purchase and the sale of securities are accounted for at the date of trade.

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

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts that are entered into, as described in Note 8.

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, are initially brought to account at market value, which is the cost of acquisition including transaction costs, and are revalued to market values continuously. Increments and decrements on Ordinary Securities are taken to the Revaluation Reserve.

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, notes and options, are initially brought to account at market value, which is the cost of acquisition, or proceeds in the case of options, and 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. If the distributions are capital returns on ordinary shares 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. 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 as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Income Statement – i.e. 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 cash flow statement, '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 as interest received.

f) Fair value of financial assets and liabilities

The 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

In calculating the value of long service leave, 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 unsettled 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. The Employee Share Acquisition Scheme and a portion of the

Executive Short Term Incentive are settled in shares, but based on a cash amount. The Company recognises any unsettled amounts at Balance Date arising from the Short Term incentive Plan on the Balance Sheet.

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) Operating leases

The Company currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease. Fixtures & fittings acquired at the time of entering into the lease are amortised over the initial period of the lease plus a committed extension.

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. Critical Accounting Estimates and Judgements

The preparation of financial reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Company’s accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for Capital Gains Tax (CGT) on the unrealised gain in the Investment Portfolio at current tax rates.

As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 15. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

3. Financial Reporting by segments

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

4. Operating profit before income tax expense and net gains on investments	**2006 $'000**	**2005 $'000**
Dividends and distributions (excl. interest)		
• securities held in investment portfolio	177,135	145,960
• securities held in trading portfolio	4,598	5,840
	181,733	151,800
Interest income		
• securities held in investment portfolio	5,149	5,345
• securities held in trading portfolio	-	18
• deposits and income from bank bills	817	2,047
	5,966	7,410
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	4,943	15,387
• unrealised gains/(losses) in trading portfolio	5,794	(3,292)
	10,737	12,095
Administration fees	1,212	992
Other income	37	13
	1,249	1,005
Income from operating activities before net gains on investments	**199,685**	**172,310**
Finance costs	(2,218)	(534)
Rental expense relating to non-cancellable operating leases	(244)	-
Employee benefits expense	(2,447)	(1,670)
Depreciation charge	(33)	-
Other administration expenses	(3,530)	(3,313)
Operating profit before income tax expense and net gains on investments	**191,213**	**166,793**

Further information relating to remuneration of auditors is set out in Note 29, Directors and Executives in Note 26.

5. Tax expense

	2006 $'000	2005 $'000
(a) Reconciliation of income tax expense to prima facie tax payable		
Operating profit before income tax expense and net gains on investments	**191,213**	**166,793**
Tax at the Australian tax rate of 30% (2005 – 30%)	57,364	50,038
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Tax offset for franked dividends	(43,680)	(36,906)
Sundry items	(825)	(1,851)
	12,859	**11,281**
Under (over) provision in prior years	(1,290)	(1,023)
Income tax expense on operating profit before net gains on investments	**11,569**	**10,258**
Net gains on investments	**43,484**	**17,387**
Tax at the Australian tax rate of 30% (2005 – 30%)	13,045	5,216
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Differences between accounting and tax cost bases for capital gains purposes	645	(163)
Accounting gains rolled-over for taxation purposes	(4,629)	(4,409)
Tax expense on net gains on investment portfolio	**9,061**	**644**
Total tax expense	**20,630**	**10,902**
(b) Tax expense composition		
Charge for tax payable relating to the current year	23,648	12,099
Under (over) provision in prior years	(1,290)	(1,023)
Increase (decrease) in deferred tax liabilities – investment portfolio	(181)	(219)
Increase (decrease) in deferred tax liabilities - other	(1,547)	45
	20,630	**10,902**
(c) Amounts recognised directly in equity		
Increase (decrease) in deferred tax liabilities relating to capital gains tax on the increase in unrealised gains on Ordinary Securities in the investment portfolio	174,337	174,178
	174,337	**174,178**

6. Current assets – cash

	2006 $'000	2005 $'000
Cash at bank and in hand	4	6,299
Deposits at call	734	1,970
Discounted bills of exchange	-	17,953
	738	26,222

Deposits at call yield an average floating interest rate of 5.48% (2005: 5.26%). Discounted bills of exchange and investment grade promissory notes yield an average fixed return of 5.62% (2005: 5.51%) and have a fixed term of up to three months.

(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.

The management of cash investments is outsourced. Under the terms of this outsourcing, funds can only be invested in short-term debt where the issuer has a Standard & Poor's short-term rating of A1+ (for Banks, A1+, A1 or A2) or Government or semi-Government issuers. The average weighted maturity of the portfolio invested in is no greater than 90 days.

(b) Standby arrangements and credit facilities

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

	2006 $'000	2005 $'000
Commonwealth Bank of Australia - floating rate bill facility	150,000	150,000
Amount drawn down	41,000	6,000
Undrawn facilities	109,000	144,000
National Australia Bank- floating rate bill facility	50,000	50,000
Amount drawn down	-	11,000
Undrawn facilities	50,000	39,000
Total floating rate facilities	200,000	200,000
Total drawn down	41,000	17,000
Total undrawn facilities	159,000	183,000

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are drawn down for no more than 90 days.

7. Current assets – receivables

Dividends and distributions receivable	30,292	19,910
Interest receivable/pre-paid	208	196
Outstanding settlements – Investment portfolio	5,232	-
Outstanding settlements – Trading portfolio	5,816	8
	41,548	20,114

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.

8. Current assets – trading portfolio

Listed securities at market value		
- shares and trust units	106,457	121,316
- Options sold by the Company		
• Calls	(4,528)	(2,780)
• Puts	(105)	(104)
	101,824	118,432

The above, plus the hybrids in the investment portfolio, are designated as 'assets measured at fair value through the income statement'. This total is $171.4 million (2005: $198.1 million)

(a) Credit risk exposure

Credit risk exposures of 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 as part of its trading activities to generate profits on dealing in securities. 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 if they were exercised, certain securities at prices which in aggregate totalled $3.9 million (2005: $7.9 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 $77.1 million (2005: $59.6 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.

$23.7 million of shares are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Company (2005: $12.2 million). These shares are held by ACH under the terms of ACH Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Company's Investment Portfolio.

9. Non-current assets – fixtures & fittings

	2006 $'000	2005 $'000
Opening Balance	-	-
Additions	932	-
Depreciation charge	(33)	-
	899	-

10. Non-current assets – investment portfolio

Listed securities		
- shares at market value	4,341,375	3,571,458
- converting and convertible notes and other interest bearing securities at market value	69,620	79,660
Unlisted securities at fair value	50	50
	4,411,045	3,651,168

The fair value of unlisted securities is determined by Directors based upon independent advice.

Credit risk exposures of 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. Excluding the hybrids, the total is $4,341.4 million (2005 : $3,571.5 million).

11. Investment in subsidiary

During the year, the Company incorporated a wholly owned subsidiary, Australian Investment Companies Group Ltd. This subsidiary was dormant from incorporation to balance date and has $1 share capital. On the basis of materiality, the Company has not prepared consolidated financial statements.

12. Current liabilities - payables

	2006 $'000	2005 $'000
Dividends payable	445	324
Outstanding settlements – Investment portfolio	374	4,944
Outstanding settlements – Trading portfolio	2,468	687
Directors' retirement benefits	681	681
Other payables	139	179
	4,107	6,815

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. Refer to Note 26(a) for further details of the discontinued Director retirement benefits.

13. Current liabilities – provisions

Employee entitlements	502	402
	502	402

14. Non-current liabilities – provisions

Employee entitlements	83	27
	83	27

15. Deferred tax liabilities – investment portfolio

Deferred tax liabilities on unrealised gains in the investment portfolio	682,048	507,892
Movements:		
Opening balance at 1 July	507,892	333,933
(Credited)/charged to Income Statement for securities that contain a derivative element (eg Convertible Notes)	(181)	(219)
(Credited)/charged to equity for ordinary securities	174,337	174,178
	682,048	507,892

Refer Note 2 for further detail on the nature of the deferred tax liabilities on the investment portfolio.

16. Deferred tax liabilities - other

		2006 $'000	2005 $'000

The Company's deferred tax liabilities ("DTL") arise from temporary differences in the recognition of items for taxation and accounting purposes, as described in Note 1(c). The key components are:

		2006 $'000	2005 $'000
(a)	The difference in the value of the trading portfolio for tax and accounting purposes	1,120	2,857
(b)	Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	(1,163)	(664)
(c)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	(428)	(362)
(d)	Interest and dividend income receivable which is not assessable for tax until receipt	1,486	731
		1,015	2,562

Movements:

	2006 $'000	2005 $'000
Opening balance at 1 July	2,562	2,517
(Credited)/charged to Income statement	(1,547)	45
	1,015	2,562

The net DTL 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 DTL likely to be reversed within the next 12 months is $1.4 million (2005: $2.9 million). This relates primarily to items described in notes (a), (b) and (d) above.

17. Shareholders' equity – share capital

(a) Share capital

	2006 Shares '000	2006 $'000	2005 Shares '000	2005 $'000
Ordinary shares – fully paid	931,661	1,501,987	908,965	1,412,375
Less ELTIP shares adjustment	-	(331)	-	(238)
	931,661	1,501,656	908,965	1,412,137

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

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
1/07/2004	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)
30/06/2005	Balance		908,965		1,412,375
23/08/2005	Dividend Reinvestment Plan	i	5,509	3.90	21,486
4/11/2005	Share Acquisition Plan	iii	16,907	3.96	66,949
7/03/2006	Dividend Reinvestment Plan	i	3,164	4.55	14,396
Various	Buy-backs	ii	(2,884)		(13,000)
Various	Cost of share issues		-		(219)
30/06/2006	Balance		931,661		1,501,987

i. The Company has a Dividend Reinvestment Plan (DRP) under which shareholders elected 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 Buy-Back Program in December 2000. During the 2006 financial year the Company had bought back 2,883,504 shares (2005: 7,534 shares) at an average price of $4.51 (2005: $3.29).

iii. The Company issued shares under a Share Acquisition Plan which enabled shareholders to acquire up to $4,998 worth of shares.

(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**
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

Award Date	**Opening balance**	**Acquired on market**	**Expense recognised**	**Cancelled**	**Residual transferred**	**Closing balance**
2005-2006						
Mar 2004	126,770	-	46,098	-	-	80,672
Oct 2004	80,989	-	24,922	-	-	56,067
Apr 2005	30,729	-	8,194	-	-	22,535
Oct 2005	-	116,113	21,772	-	-	94,341
Mar 2006	-	84,346	7,026	-	-	77,320
Total for 2005/2006	238,488	200,459	108,012	-	-	330,935

18. Revaluation Reserve

	2006 $'000	**2005 $'000**
Opening balance at 1 July	1,419,174	1,018,696
Revaluation of investment portfolio	561,711	574,656
Provision for tax on unrealised gains	(174,337)	(174,178)
	1,806,548	1,419,174

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).

19. Realised Capital Gains Reserve

Opening balance at 1 July	214,737	206,135
Dividends paid	(6,363)	(9,445)
Transfer from retained profits	35,026	18,047
	243,400	214,737

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in accounting policy note 1(b)(ii). As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of Directors.

20. General Reserve

	2006 $'000	2005 $'000
Opening balance at 1 July	23,637	23,637
	23,637	23,637

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.

21. Interest-rate swaps

Fair value of Interest-rate swap agreements	186	-
	186	-

The Company has entered into interest-rate hedging contracts with the Commonwealth Bank of Australia, under which the Company will pay a fixed interest rate on $50 million worth of short-term borrowings. They have been designated as an effective hedge and any movements in their fair value will be shown as an adjustment against equity. These swaps commence in August 2006 and have a five-year effective life. The reserve and the corresponding asset are the fair value of the interest-rate swaps.

22. Retained Profits

Opening balance at 1 July	203,534	171,893
Dividends paid	(145,074)	(123,590)
Profit for the year	214,067	173,278
Transfer to realised capital gains reserve	(35,026)	(18,047)
	237,501	203,534

23. Financial Risk Management

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Company's investments, receivables, payables and borrowings):

Credit risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation).

Credit risk is managed as noted in Notes 6 a), 8 a) & 10 with respect to cash, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are over-due or considered to be impaired.

Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company monitors its cash-flow requirements daily. Furthermore, the Investment Committee monitors the level of contingent payments on a weekly basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require the Company to purchase securities and facilities that need to be repaid. The Company ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

The relatively low level of gearing that the Company has ensures that covenant levels associated with facilities are unlikely to be breached. In the unlikely event that a fall in the value of the stock market is such that a breach would appear possible, the Company would amend its cash-flows through the sale of securities and the cessation of purchases to ensure that any short-term debt is extinguished.

The Company's inward cash-flows depend upon the level of distributions received. Should these drop by a material amount, the Company would amend its outward cash-flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is manageable by the Board and management.

Furthermore, the assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

Current financial liabilities are shown in Notes 6 b) & 12. All borrowing facilities are drawn for a period no longer than 90 days.

Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature as a Listed Investment Company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free – the market price of these securities can fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio would lead to a pre-tax reduction in the Company's equity of $221 million and $441 million respectively.

A fall in the market value of the trading portfolio of 5% and 10% equally across all securities held within the portfolio, would lead to a pre-tax reduction in the trading result of $5.1 million and $10.2 million respectively.

The Revaluation Reserve at 30 June 2006 was $1,807 million. It would require a fall in the value of the Investment Portfolio of 41% to fully deplete this. In accordance with Accounting Standards, any further falls in value would continue to be recognised in equity as unrealised losses.

The Company seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee, normally weekly, and risk can be managed by reducing exposure where necessary. The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Company's investment by sector is as below:

	2006	2005
Energy	5.02%	4.14%
Materials	22.24%	20.11%
Industrials	13.22%	15.54%
Consumer Discretionary	5.93%	6.18%
Consumer Staples	6.80%	7.97%
Banks	25.15%	25.91%
Other Financials (incl Property Trusts)	14.57%	12.82%
Telecommunications	2.60%	3.99%
Other - Health Care, Info Technology, Utilities	4.47%	3.34%

Securities representing over 5% of the combined investment and trading portfolio at 30 June 2006 were:

	% of portfolio
BHP Billiton	8.21%
Commonwealth Bank	7.95%
Westpac	6.40%
National Australia Bank	5.32%

No other security represents over 5% of the Company's investment and trading portfolios.

The Company is not currently exposed to interest rate risk as all its cash investments and borrowings are short-term for a fixed interest rate but it has entered into a interest-rate hedging contracts with the Commonwealth Bank of Australia, under which the Company will pay a fixed interest rate on $50 million worth of short-term borrowings, which will commence in August. This will lock in a fixed rate for a substantial proportion of the Company's debt. Should interest-rates move to the extent that the Board feel that the swaps are uneconomical, they will be unwound and the cost of unwinding them would be reflected through the Income Statement. Interest rate risk on hybrid securities held by the Company is reflected in their market value.

The Company is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

In the trading portfolio, the writing of call options provides some protection against a fall in market prices as it generates income to compensate for a fall in capital values. Options are only written against securities that are held in the trading portfolio.

Under Accounting Standards, movements in the market value of the trading portfolio are reflected directly through the Income Statement. However, the trading portfolio is never permitted to be more than 10% of the total value of the Company's holdings and is usually at much lower levels than this. As at 30 June 2006, it was 2.26% of the total invested including cash (2005 : 3.1%). This reduces the risk to the Company's earnings of a short-term fall in the value of securities held in the trading portfolio.

24. Dividends

	2006 $'000	2005 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2005 of 10 cents fully franked at 30% paid on 23 August 2005 (2005: 8.75 cents fully franked at 30% paid on 19 August 2004).	90,897	78,709
Interim dividend for the year ended 30 June 2006 of 6.5 cents per share fully franked at 30%, paid 7 March 2006 (2005: 6.0 cents fully franked at 30% paid 18 March 2005)	60,540	54,326
	151,437	133,035
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	115,555	100,616
Reinvested in shares	35,882	32,419
	151,437	133,035

b) Franking credits

	2006 $'000	2005 $'000
Balance on the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables.	68,775	54,930
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(41,925)	(38,956)
Net available	26,850	15,974
These franking account balances would allow the Company to frank additional dividend payments up to an amount of:	62,650	37,273

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

	2006 $'000	2005 $'000
Since the end of the year Directors have declared a final dividend of 10.5 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2006 to be paid on 23 August 2006, but not recognised as a liability at the end of the financial year	97,824	

(d) Listed Investment Company capital gain account	2006 $'000	2005 $'000
Balance of the Listed Investment Company (LIC) capital gain account	20,949	6,441
This would equate to an attributable amount of	29,927	9,201

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.

25. Earnings per share

	2006	2005
Basic Earnings per Share		
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	924,898,666	905,636,219
	$'000	**$'000**
Profit for the year	214,067	173,278
	Cents	**Cents**
Basic earnings per share	23.14	19.13
Basic net operating profit before net gains on investment portfolio per Share		
	$'000	**$'000**
Net operating profit before net gains on investment portfolio	179,644	156,535
	Cents	**Cents**
Basic net operating profit per share	19.42	17.29

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earnings per share is the same as Basic Earnings per Share. This similarly applies to diluted net operating profit before net gains on investment portfolio per Share

26. Directors and Executives

Persons who were Directors of Australian Foundation Investment Company Limited for part or all of the financial year ended 30 June 2006 were:
BB Teele
DR Argus
RE Barker
TA Campbell
J Paterson
FD Ryan
SDM Wallis
CM Walter

Persons who were executives with authority for the strategic direction and management of the Company for part or all of the financial year ended 30 June 2006 were:
RE Barker – Managing Director
GN Driver – General Manager – Business Development and Investor Relations
AJB Porter – Chief Financial Officer (commenced 17 January 2005)
SE Crook – Company Secretary & General Counsel (commenced 6 June 2005).

The sub-totals of Remuneration for the above are as follows:

	Short-term benefits $	Post-employment benefits $	Share-based payments $	Total $
2006				
Non-executive Directors	400,000	36,000	-	436,000
Executives	1,466,127	94,346	349,821	1,910,294
	1,866,127	130,346	349,821	2,346,294
2005				
Non-executive Directors	453,305	36,000	-	489,305
Executives	1,104,440	60,721	252,901	1,418,062
	1,557,745	96,721	252,901	1,907,367

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

(a) Principles used to Determine Nature and Amount of Remuneration

Directors

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 Annual General meeting in 2004, 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.
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. The Company continues to pay SGC contributions on Directors fees.

Executives

The Company has adopted a policy of remuneration for executives 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 quantitative 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 share-holder wealth over the short-term, and how these changes can best be assessed. Changes in share-holder 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 set annually, 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 quantitative measures for the financial year ended 30 June 2006 were as follows:

	2006	**2005**
Total Shareholder Return	29.4%	17.9%
Total Portfolio Return	20.5%	24.3%
Growth in net operating profit per share	12.3%	22.3%
Management Expense Ratio	0.12%	0.12%

The short-term assessment also includes consideration of 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 Non-Executive Directors

Details of the nature and amounts of each Non-Executive Director's remuneration in respect of the year to 30 June 2006 were as follows:

	Short Term	Post Employment	
	Fee / Base Salary $	Superannuation $	Total remuneration $
BB Teele – Chairman			
2006	100,000	9,000	109,000
2005	100,000	9,000	109,000
DR Argus – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
TA Campbell – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
MA Neil ^ – Director Retired 22 June 2005			
2006	-	-	-
2005	53,305	-	53,305
FD Ryan – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
SDM Wallis – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
CM Walter – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
J Paterson – Director			
2006	50,000	4,500	54,500
2005	50,000	4,500	54,500
Total			
2006	400,000	36,000	436,000
2005	453,305	36,000	489,305

^: In the year ended 30 June 2005, MA Neil was paid the $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) Executives :

Details of the nature and amounts of each Executive's remuneration in respect of the year to 30 June 2006 were as follows:

	Short Term		Post Employment	Share based		
	Base Salary $	Cash Incentives & other payments $	Superannuation $	Short term shares $	Long term Shares $	Total $
RE Barker – Managing Director						
2006	352,250	167,050	12,450	128,500	82,824	743,074
2005	341,527	162,120	11,667	125,000	54,821	695,135
GN Driver – General Manager – Business Development and Investor Relations						
2006	323,395	46,004	29,106	46,001	21,783	466,289
2005	298,547	38,333	26,869	38,325	12,015	414,089
AJB Porter – Chief Financial Officer						
2006	272,118	42,654	40,560	42,652	3,405	401,389
2005	126,147	20,000	11,353	20,000	-	177,500
SE Crook – Company Secretary & General Counsel						
2006	238,000	24,656	12,230	24,656	-	299,542
2005	16,528	27,740	731	2,740	-	47,739
ME Licciardo – Company Secretary (Resigned 17 December 2004)						
2006	-	-	-	-	-	-
2005	64,324	9,174	10,101	-	-	83,599
Total						
2006	1,185,763	280,364	94,346	241,809	108,012	1,910,294
2005	847,073	257,367	60,721	186,065	66,836	1,418,062

In accordance with Accounting Standards, the remuneration relating to long-term share-based payments reflects the expense recognised by the Company, rather than the value of shares granted or vested during the year. The amount recognised for short-term shares for RE Barker is subject to approval by shareholders at the AGM.

The amounts above reflect the expense incurred by the Company in a year in respect of each individual for that year. The Remuneration Report reflects the amount actually paid or expected to be paid to each individual in respect of a particular year.

The short-term cash incentive shown for 2006 will be paid during the year ended 30 June 2007 (except for GN Driver and AJB Porter, who had $21,817 and $20,500 respectively paid during the year ended 30 June 2006) and the short-term shares for Executives other than RE Barker, whose award will need to be agreed by shareholders at the AGM, will be purchased on market during the year ended 30 June 2007 (except for GN Driver and AJB Porter, who had $21,814 and $20,498 worth of shares purchased during the year ended 30 June 2006).

During the current financial year the following numbers of shares were purchased under the Short Term Incentive Plan based on an assessment of performance:

	2006 Number	2005 Number
RE Barker	28,995	29,486
GN Driver	8,966	9,130
AJB Porter	8,425	-
SE Crook	-	-
Shares awarded during the year	46,386	38,616

In accordance with the accounting policy described in Note 1 (g) (iii) & (iv), the Company has provided at balance date the following amounts in relation to the performance for the year ended 30 June 2006, which are included in the remuneration figures above below :

	2006 $	2005 $
RE Barker	257,000	250,000
GN Driver	48,374	43,333
AJB Porter	44,308	40,000
SE Crook	49,312	5,480
	398,994	338,813

(d) 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(g)(iv), the shares acquired on market are recognised in the financial statements as an adjustment against share capital, as disclosed in Note 17.

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:

	2006 Number	Fair value $	2005 Number	Fair value $
RE Barker	28,995	116,113	29,485	99,679
GN Driver	8,966	43,485	9,130	32,777
AJB Porter	8,425	40,861	-	-
Shares awarded during the year	46,386	200,459	38,615	132,456

The fair value of the shares awarded has been determined in accordance with the accounting policy in Note 1 (g) (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
Oct 2005	Nov 09 – Oct 10	-	28,995	-	-	28,995
Mar 2006	Apr 10 – Mar 11	-	17,391	-	-	17,391
Total		94,781	46,386	-	-	141,167

(e) Shareholdings

At balance date, shares issued by the Company and held directly, indirectly or beneficially by non-executive directors and executives of the Company, or by entities to which they were related were:

	Opening balance	Received as remuneration	Other changes	Closing balance	Subject to vesting
BB Teele	1,756,523	-	3,786	1,760,309	-
DR Argus	159,000	-	94,750	253,750	-
RE Barker	528,788	57,990	10,607	597,385	102,502
TA Campbell	195,738	-	1,262	197,000	-
J Paterson	200,034	-	5,089	205,123	-
FD Ryan	82,500	-	-	82,500	-
SDM Wallis	163,900	-	-	163,900	-
CM Walter	75,437	-	2,012	77,449	-
G Driver	79,737	17,932	(7,850)	89,819	30,240
A Porter	275	16,850	11	17,136	8,425
S Crook	-	-	111,142	111,142	-

Note : Shareholdings do not include shares due to be purchased during the year ending 30 June 2007 as part of remuneration for the year ended 30 June 2006. Shareholdings do include amounts that are subject to vesting.

(f) Other arrangements with non-executive directors

Non Executive Directors Fergus Ryan, Stan Wallis and Catherine Walter rent office space from the Company at commercial rates with effect from 6 March 2006. Sub-lease rental income received by the Company during the year:

	2006 $	2005# $
FD Ryan	3,843	-
SDM Wallis	6,196	-
CM Walter	5,968	-
	16,007	-

In the prior year no rental was paid to the Company as the space was rented directly by Directors from Goldman Sachs JB Were Pty Ltd.

27. Employee information

Employee numbers	**Number**	**Number**
Number of employees at balance date	11	11

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 (2005: 6) in the scheme were each awarded 210 shares (2005: 270) in the Company. These shares cost the Company $6,131 (2005: $6,122) to acquire on market, including brokerage.

28. Related parties

Director TA Campbell is interested in the following transactions as a Director, employee and shareholder 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.

		2006 $'000	2005 $'000
(a)	The Company invests surplus funds in deposits at call with Goldman Sachs JBWere Capital Markets Ltd and bills of exchange		
	- interest revenue received or receivable	90	243
	- sales of bills with GS JB Were Capital Markets Ltd as principal	-	4,954
	- deposits at call (at balance date)	733	1,970
(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	36	64
(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	802	964
	- Portfolio advice services paid or payable	44	44
(d)	The Company obtains the following services from Goldman Sachs JBWere Pty Ltd		
	- Computer services	61	105
	- Printing and stationery	-	14
(e)	The Company rented premises from Goldman Sachs JBWere Services Pty Ltd.	129	187

29. Remuneration of auditors

	2006 $	2005 $
During the year the auditor earned the following remuneration:		
PricewaterhouseCoopers		
Audit or review of financial reports	127,820	118,300
Non-Audit Services		
Taxation compliance services	22,000	21,989
Other taxation services	11,880	-
Other assurance services #	17,325	35,219
Total Non-Audit Services	51,205	57,208
Total remuneration	179,025	175,508

The other assurance services relates 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 legal requirements regarding audit partner rotation every 5 years.

30. Reconciliation of net cash flows from operating activities to profit

	2006 $'000	2005 $'000
Profit for the year	214,067	173,278
- Add back depreciation	33	-
- Net decrease (increase) in trading portfolio	16,608	47,437
- Net losses (gains) on investments before tax	(43,484)	(17,387)
- Dividends received as securities under DRP investments	(6,167)	(861)
- Decrease (increase) in current receivables	(21,434)	1,524
- Less increase (decrease) in receivables for investment portfolio	5,232	(435)
- Increase (decrease) in deferred tax liabilities	172,609	174,006
- Less (increase) decrease in deferred tax liability on investment portfolio	(174,156)	(173,959)
- Less (credit) charge for income tax on gain or loss on hybrid securities	(181)	(219)
- Increase (decrease) in current payables	(2,708)	4,314
- Less decrease (increase) in payables for investment portfolio	4,570	(4,857)
- Less increase (decrease) in dividends payable	(121)	38
- Movement on ELTIP account	(93)	(65)
- Increase (decrease) in tax payable	6,538	(2,854)
- Increase (decrease) in other provisions	156	(236)
Net cash flows from operating activities	171,469	199,724

31. 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.

32. Lease commitments

During the year, the Company entered into a non-cancellable operating lease for the use of its premises for 6 and half years with three further options of 4 years. Commitments relating to leases at balance date, but not recognised as a liability:

Due within one year	396	-
Later than one year but less than five	1,748	-
Greater than five years	276	-
	2,420	-

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

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 Year Ended 30 June 2005

	AGAAP $'000	Adj $'000	AIFRS $'000
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	
	$'000 1/07/04	**$'000 30/06/05**	**$'000 1/07/04**	**$'000 30/06/05**	**$'000 1/07/04**	**$'000 30/06/05**
Trading portfolio a)	151,301	107,156	14,568	11,276	165,869	118,432
Deferred tax asset	1,855	822	(1,855)	(822)	-	-
Investment portfolio	2,828,699	3,651,168	-	-	2,828,699	3,651,168
Other assets	156,128	46,336	-	-	156,128	46,336
Total assets	**3,137,983**	**3,805,482**	**12,713**	**10,454**	**3,150,696**	**3,815,936**
Deferred tax liability d)& e)	-	-	(336,448)	(510,454)	(336,448)	(510,454)
Other liabilities	(14,039)	(32,263)	-	-	(14,039)	(32,263)
Total liabilities	**(14,039)**	**(32,263)**	**(336,448)**	**(510,454)**	**(350,487)**	**(542,717)**
Net assets	**3,123,944**	**3,773,219**	**(323,735)**	**(500,000)**	**2,800,209**	**3,273,219**
Shareholders' equity						
Share Capital	1,379,848	1,412,137	-	-	1,379,848	1,412,137
Reserves	1,592,394	2,174,130	(550,061)	(731,319)	1,042,333	1,442,811
Retained Earnings[1] f)	151,702	186,952	226,326	231,319	378,028	418,271
Total shareholders' equity	**3,123,944**	**3,773,219**	**(323,735)**	**(500,000)**	**2,800,209**	**3,273,219**

[1] Includes Realised Capital Gains

iii) Statement of Cash Flows

The adoption of AIFRS did not result 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 :

1) the financial statements and notes set out on pages 9 to 39 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 2006 and of its performance, as represented by the results of its operations, changes in equity 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 2006. 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
26 July 2006

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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 2006, 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 and the entity it controlled during the period.

Simon Gray
Partner
PricewaterhouseCoopers

Melbourne
26 July 2006

PRICEWATERHOUSECOOPERS

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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 Limited as at 30 June 2006, and of its performance for the year ended on that date,
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

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, 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 year ended 30 June 2006.

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.

PRICEWATERHOUSECOOPERS

We performed procedures to assess whether in all material respects the financial report presents 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, changes in equity 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
26 July 2006