Australian Foundation

INVESTMENT COMPANY

ABN. 56 004 147 120.

APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2006 with the previous corresponding period being the half-year ended 31 December 2005.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was $107.1 million, 16.6% up from the previous corresponding period.
- Operating Profit after tax was $106.8 million, 22.8% up from the previous corresponding period
- Net Profit attributable to members (including capital gains) was $114.4 million, 3.1% down from the previous corresponding period due to the reduction in the amount of sales from the investment portfolio.
- The interim dividend is 8 cents per share, fully franked, compared to 6.5 cents last year, fully franked. It will be paid on 8 March 2007 to ordinary shareholders on the register on 20 February 2007.
- The Company operates a Dividend Reinvestment Plan under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days from the day the shares begin trading on an ex-dividend basis. The last day for the receipt of an election notice for participation in the plan is 20 February 2007.
- The final dividend for the 2006 financial year was 10.5 cents per share (fully franked), and it was paid to shareholders on 23 August 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 2006 were $5.30, up from $4.56 at the end of the previous corresponding period.

Australian Foundation
INVESTMENT COMPANY

MEDIA RELEASE - HALF YEAR RESULT

7 February 2007

AFIC LIFTS NET OPERATING PROFIT 23%, INCREASES DIVIDEND 23%

Australian Foundation Investment Company today announced its financial results for the half year to 31 December 2006.

Net Operating Profit after tax, which excludes realised capital gains and primarily reflects on-going earnings from the Company's long term investment portfolio, increased to $106.8 million or 22.8% over the equivalent number of $87.0 million last year. The operating profit per share for the six months to 31 December 2006 was 11.4 cents per share with an interim dividend declared of 8 cents per share.

Under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the reported profit after tax of the Company for the six months to 31 December 2006 was $114.4 million. This figure includes after tax profits on the sale of securities from the investment account of $5.8 million which are required to be included as profit under these standards. In line with the Company's accounting policy which only recognises income when a disposal of an investment occurs from the Investment Portfolio we have taken a conservative view and not recognised in Reported Profit the impact of the re organisation of assets relating to Brambles Industries Limited, Alinta Limited and Australian Gas Light Company which occurred during the half.

SUMMARY OF RESULTS

- Net Operating Profit after tax was $106.8 million (last year $87.0), up 22.8%.
- AIFRS Reported Profit after tax was $114.4 million (last year $118.0). This includes realised gains on the sale of investments.
- Earnings per share based on Net Operating Profit were 11.4 cents, an increase of 20.5% over 9.5 cents last year.
- A fully franked interim dividend of 8 cents per share will be paid on 8 March 2007. This is an increase of 1.5 cents over last year's interim dividend of 6.5 cents.
- Total shareholder return measured by the change in share price plus reinvested dividend over the half year was up 12.8%
- Total portfolio return over the six month period (measured by change in net asset backing per share plus dividend reinvested) was an increase of 12.3% after tax and management fees.
- Net asset backing at 31 December 2006 was $5.30 (before allowing for the 8 cent interim dividend). At 31 January 2007 the net asset backing was $5.45 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 2006 was $5.12 billion.

Chairman's Comments

The Chairman, Mr Bruce Teele noted "The market has experienced another very strong period over the past six months meaning equities have now delivered exceptional gains for investors over seven consecutive half year periods.

A number of factors have contributed to this sustained performance including robust domestic and global growth (particularly from China) and the strong underpinning provided by mandated superannuation flows. More recently the heightened activity of private equity funds and the increased level of merger and acquisition activity have assisted in the market reaching record highs.

We have been careful to pursue our long term focus on value and continue to build a portfolio of companies with strong market positions and increasing cash flows and dividends over time. It is interesting to note that the explosion in private equity activity is built on the premise that there is greater value in many companies than is currently being assigned to them by the market. This reinforces our view that many market players focus too heavily on short term measures and performance metrics that underestimate the long term value of these franchises and the embedded value of these unique business footprints. In fact one could observe that the recent wave of private equity and takeover activity probably could not occur unless this was the case.

One area of the market that has not been appreciated in recent months has been the large diversified resource companies. As a result we have taken the opportunity to further invest in BHP Billiton and Rio Tinto. We remain confident about their long term value given their outstanding assets, strong balance sheets and cash flows, particularly in light of the expected ongoing demand from China and other emerging markets. We are hopeful of attractive dividend growth flowing through to shareholders from this strong growth phase.

The other major investment we undertook over the past six months was to take up our entitlement for the Telstra Instalment Receipts. Again this is a company with a strong franchise, although we acknowledge it is in the process of dealing with a number of competitive challenges, including a major restructuring of its businesses. This has proved to be a very good investment given the performance of these Receipts since their listing.

Outlook

In looking to the remainder of the financial year the factors contributing to market strength are likely to continue, notably, strong flows of funds from superannuation and further private equity/takeover activity. Corporate profitability is expected to remain strong although clearly the Australian economy appears to be performing on two levels with the resource, infrastructure and financial services sectors growing strongly, with this extraordinary growth offset by more subdued activity for the housing, manufacturing and agricultural sectors.

However the potential impacts of capacity constraints and cost pressures emerging in those sectors performing strongly have the potential to squeeze margins whilst at the same time increase inflationary pressures. Further, the necessary pre-conditions for improvement in the agricultural sector through substantial rain remain uncertain at this point. On a broader front the issues surrounding potential geopolitical risks still remain. The market does not appear to be appropriately pricing these risks.

As we consider this environment we are not seeing compelling value in the market although we are still seeing some interesting opportunities arise. The Company was close to fully invested at 31 December 2006 although we have access to lines of credit of up to $200 million, of which $150 million is currently undrawn".

Profit Performance

Net Operating Profit after tax for the period (which excludes realised capital gains) was $106.8 million, an increase of $19.8 million or 22.8% on the corresponding period last year. The Net Operating Profit after tax performance was very satisfying as the Company continued to enjoy a strong flow of fully franked dividends from the companies in the portfolio reflecting their sound levels of profitability and relatively strong balance sheets.

Overall revenue from the Investment Portfolio increased $15.3 million to $103.5 million or 17.4%, the major components of this increase being fully franked dividends of $14.4 million, income from trusts of $0.9 million and special distributions/dividends of $0.7 million.

The result for Net Operating Profit per share represents an increase of 20.5% to 11.4 cents per share from 9.5 cents per share over the corresponding period last year.

Under the Australian equivalents to International Accounting Standards (AIFRS), Net Profit after tax differs from the Net Operating Profit after tax as it includes realised gains in the investment portfolio. As noted previously this measure is likely to move around from period to period depending on the levels of sales from the Investment Portfolio which is inherently unpredictable. The profit on this basis for the six months to 31 December 2006 was $114.4 million. This was slightly lower than last year's figure of $118.0 million. The major contributors to the realised gains were the sale of holdings in ABC Learning Centres Limited and DCA Group, which was compulsorily acquired, and a small reduction in our position in Bradken Limited.

Dividends

Directors have declared a final dividend of 8 cents per share fully franked payable on 8 March 2007 to shareholders on the register on 20 February 2007 (shares will trade ex dividend from 14 February). This is a 23% increase over of the interim dividend of 6.5 cents per share paid last year.

This increase reflects the strong performance in underlying income achieved from the investment portfolio during the past six months and the Directors desire to bring the amounts paid in the interim and final dividends closer together.

Directors have adopted a progressive dividend policy of seeking to maintain and grow the dividend steadily on a sustainable basis over time. Directors will assess the final dividend with the financial year end result due to be announced in July 2007, but shareholders should not necessarily expect a similar increase in the final dividend.

Trading Portfolio

The Trading Portfolio delivered an increased return over the six months, up from $5.9 million last half year to $14.7 million over the six months to 31 December 2006. Activity in this portfolio was relatively constrained given we felt concern about the high level of market valuations, however the portfolio did benefit from the substantial improvements in the share prices of Telstra and Rinker over the period.

The Trading Portfolio averaged just under 3% of the Company's total portfolio over the half year.

Investment Portfolio

The unrealised gains on the Investment Portfolio increased $439.0 million during the six month period compared with a rise of $354.1 million during the corresponding six month period last year. The key positive contributors to AFIC's performance over the six months were Commonwealth Bank, National Australia Bank, Toll Holdings, Coles Group and Woolworths.

During the past six months the Company added to its holdings in the resources/energy sectors through BHP Billiton and Rio Tinto. We also increased our exposure to Telstra through the T3 offering of Instalment Receipts (as a result of our entitlement as Telstra shareholders) and added further to our existing investments in Cedar Woods Properties, Djerriwarrh Investments (rights issue entitlement) and Metcash.

As at 31December 2006 the value of the Company's investment and trading portfolios at market value, including cash, was $5.12 billion.

Capital Changes

The Company successfully completed a share acquisition plan in December 2006. Valid applications were received from shareholders for 20.0 million ordinary shares in the Company at $4.90 per share raising $98.0 million of new capital. The shares issued under this plan are entitled to the interim dividend announced with this result.

Investment Team

For some time we have been seeking to develop and strengthen the in-house team providing administration and support services to AFIC. We have also indicated for some time an intention to establish investment management, research and dealing skills internally to support the Company's Investment Committee.

As part of this process, Australian Investment Companies Group, a subsidiary of AFIC, has appointed an investment team to service AFIC and three other listed investment companies. These full-time professional staff will assist in the management of AFIC's portfolio which has a market value of approximately $5.1 billion invested in listed securities in Australia.

Mr Mark Freeman has accepted an invitation to join as Chief Investment Officer, Mr Alan Dunn as Senior Investment Analyst/Dealer and Mr Kieran Kennedy returns to the Company and is taking up the position of Investment Analyst/Dealer. We intend to grow the team further over time. Both Mr Freeman and Mr Dunn have been assisting the investment companies with their investment and dealing activities as employees of Goldman Sachs JBWere for some time. As such they have a depth of knowledge and experience of the companies' investment approaches, policies and processes.

We are very pleased with this outcome as the appointment of the investment team further enhances AFIC's investment capabilities.

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 25 INVESTMENTS AS AT 31 DECEMBER 2006

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 29 December 2006

			Total Value $ million
*	1	Commonwealth Bank of Australia	395.0
*	2	BHP Billiton	356.7
*	3	Westpac Banking Corporation	306.7
	4	National Australia Bank	276.3
*	5	Rio Tinto	186.0
*	6	Wesfarmers	185.9
*	7	Telstra Corporation (a)	180.6
*	8	Toll Holdings	151.1
	9	Woolworths	148.3
	10	Coles Group	137.9
	11	Australia and New Zealand Banking Group	137.6
*	12	Rinker Group	123.6
*	13	AMP	93.2
	14	West Australian Newspapers Holdings	89.6
*	15	St. George Bank	85.5
*	16	Woodside Petroleum	83.8
*	17	Alumina	83.0
	18	Westfield Group	77.0
*	19	Brambles	75.1
	20	Computershare	72.6
	21	QBE Insurance Group	71.0
	22	Transurban Group	67.0
	23	Amcor	66.9
	24	Milton Corporation	62.7
*	25	AGL Energy	60.8
		Total	**3,573.8**
		As % of Total Portfolio Value (excludes Cash & Bank Bills)	69.9%

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

(a) Includes $44.3 million of TLSCA instalment receipts

Australian Foundation Investment Company Limited

ABN 56 004 147 120

Half-year Report

31 December 2006

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 AO 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 21 101 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: Locked Bag A14, Sydney South, NSW 1235 Level 12, 680 George Street, Sydney NSW 2000 AFIC Shareholder enquiry line: 1300 662 270 +612 8280 7757 (from overseas) Facsimile: (02) 9287 0303 Email: registrars@linkmarketservices.com.au Internet: www.linkmarketservices.com.au
Share Registrar for New Zealand Shareholders:	Link Market Services Limited Mail Address: PO Box 384, Ashburton, New Zealand, 8300 138 Tancred Street, Ashburton, New Zealand, 8300 Telephone: 0800 377 388 (toll free) + 64 3 308 8887 Facsimile: + 64 3 308 1311 Email: info@linkmarketservices.com
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 2006 for Australian Foundation Investment Company ('the Company') and its subsidiary ('the Group') is presented by the Directors of the Company.

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

Review of the Group'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.

The Company has established a subsidiary, Australian Investment Companies Group Limited, to provide administration services and hold an Australian Financial Services Licence.

Profit Performance and Dividend

Net Operating Profit after tax, which excludes realised capital gains and primarily reflects on-going earnings from the Company's long term investment portfolio, increased to $106.8 million or 22.8% over the equivalent number of $87.0 million last year. The operating profit per share for the six months to 31 December 2006 was 11.4 cents per share with an interim dividend declared of 8 cents per share.

Under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the reported profit after tax of the Company for the six months to 31 December 2006 was $114.4 million. This figure includes after tax profits on the sale of securities from the investment account of $5.8 million which are required to be included as profit under these standards.

Market conditions

In looking to the remainder of the financial year the factors contributing to market strength are likely to continue, notably, strong flows of funds from superannuation and further private equity/takeover activity. Corporate profitability is expected to remain strong although clearly the Australian economy appears to be performing on two levels with the resource, infrastructure and financial services sectors growing strongly, with this extraordinary growth offset by more subdued activity for the housing, manufacturing and agricultural sectors.

However the potential impacts of capacity constraints and cost pressures emerging in those sectors performing strongly have the potential to squeeze margins whilst at the same time increase inflationary pressures. Further, the necessary pre-conditions for improvement in the agricultural sector through substantial rain remain uncertain at this point. On a broader front the issues surrounding potential geopolitical risks still remain. The market does not appear to be appropriately pricing these risks,

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 21.

Rounding of amounts to nearest thousand dollars

The Group 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
7 February 2007

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Note	Half-year 2006 $'000	Half-year 2005 $'000
Dividends and distributions		106,180	90,586
Revenue from deposits and bank bills		237	684
Other revenue		691	620
Total revenue		**107,108**	**91,890**
Net gains on trading portfolio		12,012	3,543
Income from operating activities before net gains on investments	**3**	**119,120**	**95,433**
Finance costs		(3,120)	(1,498)
Administration expenses		(3,542)	(3,109)
Operating profit before income tax expense and net gains on investments		**112,458**	**90,826**
Income tax expense*		(5,669)	(3,844)
Net operating profit before net gains on investments		**106,789**	**86,982**
Net gains/(losses) on investments			
Net gains on Ordinary Securities sold from the investment portfolio		7,791	40,673
Net gains/(losses) on Other Securities		2,521	(1,591)
Tax expense on net gains on investments*		(2,735)	(8,024)
		7,577	31,058
Profit for the half-year		**114,366**	**118,040**
		Cents	**Cents**
Basic earnings per share	**8**	12.22	12.86
Diluted earnings per share	**8**	12.22	12.86

	Half-year 2006 $'000	Half-year 2005 $'000
*** Total Tax Expense**	**8,404**	**11,868**

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	31 Dec 2006 $'000	30 June 2006 $'000
Current assets			
Cash		7,974	738
Receivables		9,671	41,548
Trading portfolio	**4**	143,438	101,824
Interest-rate hedging contracts		503	186
Total current assets		**161,586**	**144,296**
Non-current assets			
Fixtures & fittings		867	899
Investment portfolio		4,972,742	4,411,045
Total non-current assets		**4,973,609**	**4,411,944**
Total assets		**5,135,195**	**4,556,240**
Current liabilities			
Payables		4,125	4,107
Tax payable		6,981	14,557
Borrowings		50,000	41,000
Provisions		389	502
Total current liabilities		**61,495**	**60,166**
Non-current liabilities			
Provisions		109	83
Deferred tax liabilities - investment portfolio	**5**	810,600	682,048
Deferred tax liabilities - other		1,702	1,015
Total non-current liabilities		**812,411**	**683,146**
Total liabilities		**873,906**	**743,312**
Net Assets		**4,261,289**	**3,812,928**
Shareholders' equity			
Share Capital	**6**	1,621,926	1,501,656
Revaluation Reserve		2,117,780	1,806,548
Realised Capital Gains Reserve		230,176	243,400
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		503	186
Retained Profits		267,267	237,501
Total shareholders' equity		**4,261,289**	**3,812,928**

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

Consolidated Statement of Changes in Equity for the Half-Year ended 31 December 2006

	Note	Half-year 2006 $'000	Half-year 2005 $'000
Total equity at the beginning of the half-year		**3,812,928**	**3,273,219**
Dividends paid	**7**	(97,824)	(90,897)
Shares issued - Dividend Reinvestment Plan		22,430	21,486
- Share Acquisition Plan		97,979	66,949
On-market share buy-backs		(15)	(4)
Other Share Capital Adjustments		(124)	(268)
Total transactions with share-holders		**22,446**	**(2,734)**
Revaluation of investment portfolio		439,028	354,071
Provision for tax on unrealised gains		(127,796)	(111,883)
Net unrealised gains on investment portfolio		311,232	242,188
Net movement in fair value for interest rate swaps		317	-
Net income recognised directly in equity		311,549	242,188
Profit for the half-year		114,366	118,040
Total recognised income (including unrealised gains) & expense for the half-year		**425,915**	**360,228**
Total equity at the end of the half-year		**4,261,289**	**3,630,713**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Half-year 2006 $'000 INFLOWS/ (OUTFLOWS)	Half-year 2005 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	39,745	31,898
Purchases for trading portfolio	(64,065)	(22,664)
Interest received	2,589	3,266
Dividends and distributions received	122,683	98,700
	100,952	111,200
Other receipts	657	620
Administration expenses	(3,322)	(2,928)
Finance costs paid	(3,364)	(1,421)
Income taxes paid	(14,499)	(10,164)
Net cash inflow/(outflow) from operating activities	**80,424**	**97,307**
Cash flows from investing activities		
Sales from investment portfolio	46,190	134,741
Purchases for investment portfolio	(151,062)	(221,821)
Payment for Fixed Assets	(19)	-
Net cash inflow/(outflow) from investing activities	**(104,891)**	**(87,080)**
Cash flows from financing activities		
Proceeds from borrowings	316,000	120,000
Repayment of borrowings	(307,000)	(137,000)
Share issues	97,979	66,950
Share issues transaction costs	(6)	(199)
Payment for shares bought back	(15)	(4)
Dividends paid	(75,255)	(69,154)
Net cash inflow/(outflow) from financing activities	**31,703**	**(19,407)**
Net increase/(decrease) in cash held	7,236	(9,180)
Cash at the beginning of the half-year	738	26,222
Cash at the end of the half-year	**7,974**	**17,042**

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

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 2006 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

2. Financial reporting by segments

The Group consists of a Listed Investment Company and a subsidiary which provides administration services to it and to other Listed Investment Companies in Australia. It has no reportable business or geographic segments.

3. Income from operating activities

	Half-year 2006 $'000	Half-year 2005 $'000
Income from operating activities is comprised of the following:		
Investment Portfolio		
• dividends & distributions	101,159	85,590
• interest	2,370	2,591
	103,529	88,181
Trading Portfolio		
• dividends & distributions	2,651	2,405
• realised gains/(losses)	4,040	1,552
• unrealised gains/(losses)	7,972	1,991
	14,663	5,948
Other Revenue		
• interest from cash deposits	237	684
• administration fees	570	620
• rent received	121	-
	928	1,304
	119,120	**95,433**

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 $7.3 million (2005: $2.8 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 $88.7 million (2005: $86.3 million).

5. Deferred tax liabilities – investment portfolio

If the investment portfolio had been sold immediately after balance date a net capital gains tax liability of $810.6 million based upon a tax rate of 30% (30 June 2006: $682.0 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 2006 Shares '000	31 Dec 2006 $'000	30 June 2006 Shares '000	30 June 2006 $'000
(a) Share Capital				
Ordinary shares – fully paid	956,426	1,622,376	931,661	1,501,987
Less ELTIP shares adjustment	-	(450)	-	(331)
	956,426	1,621,926	931,661	1,501,656

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
01/07/2006	Opening Balance		931,661		1,501,987
23/08/2006	Dividend Reinvestment Plan	i	4,772	4.70	22,430
22/12/2006	Share Acquisition Plan	ii	19,996	4.90	97,979
Various	Buy-backs	iii	(3)		(15)
Various	Cost of share issues		-		(5)
31/12/2006	Balance		956,426		1,622,376

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 1,020 shares at a price set at a 3% discount to the closing price on 7th November 2006.

iii The Company introduced an on-market Buy-Back Programme in December 2000. During half-year ended 31 December 2006 the Company had bought back 3,000 shares at an average price of $4.93. During the corresponding period in 2005, 1,000 shares were bought back at an average price of $4.26.

(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
01/07/2006	$330,935	-	$(64,663)	-	-	$266,272
11/08/2006	-	$70,762	$(7,373)	-	-	$63,389
10/10/2006	-	$128,073	$(8,013)	-	-	$120,060
Total	$330,935	$198,835	$(80,049)	-	-	$449,721

7. Dividends

	Half-year 2006 $000	Half-year 2005 $000
Dividends paid during the period	97,824	90,897

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 8 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 8 March 2007, but not recognised as a liability at the end of the half-year is	76,514	

8. Earnings per Share

	Half-year 2006	Half-year 2005
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	936,009,837	918,094,733
Basic earnings per share		
	$'000	**$'000**
Profit attributable to members of the company	114,366	118,040
	Cents	**Cents**
Basic earnings per share	12.22	12.86

Net operating profit per share

	Half-year 2006	Half-year 2005
	$'000	**$'000**
Net operating profit	106,789	86,982
	Cents	**Cents**
Net operating profit per share	11.41	9.47

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.

9. Events subsequent to balance date

Since 31 December 2006 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 Group 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.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 12 to 19 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 Group's financial position as at 31 December 2006 and of its performance, as represented by the results of the operations, changes in equity and 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
7 February 2007

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Auditors' Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half-year ended 31 December 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 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 and the entity it controlled during the period.

Simon Gray
Partner
PricewaterhouseCoopers

Melbourne
7 February 2007

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Independent Auditors' Review Report to the members of Australian Foundation Investment Company Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Australian Foundation Investment Company Group ("the Consolidated Entity"). The Consolidated Entity comprises both Australian Foundation Investment Company Limited ("the Company") and the entity it controlled during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

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A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

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 have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Foundation Investment Company Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Simon Gray

Simon Gray
Partner

Melbourne
7 February 2007