



ABN. 56 004 147 120.

**APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

CONTENTS

- Results for announcement to the market
- Media release
- Appendix 4D Accounts
- Independent Auditors' Review Report

This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Group's 2010 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2010 with the previous corresponding period being the half-year ended 31 December 2009. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was \$122.3 million, 28.9% up from the previous corresponding period.
- Net Operating Profit after tax was \$115.4 million, 22.7% up from the previous corresponding period.
- Profit after tax attributable to members was \$122.1 million (up 30.6% on last year's \$93.5 million). This figure includes unrealised gains on certain investments in the investment portfolio that are defined as 'puttable instruments'.
- The interim dividend is 8 cents per share, fully franked, the same as last year's interim dividend. It will be paid on 25 February 2011 to ordinary shareholders on the register on 10 February 2011 and the shares are expected to commence trading on an ex-dividend basis on 4 February 2011.
- 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. Shareholders should note that the Directors have determined that a discount should apply to the price of shares issued under the Dividend Reinvestment Plan for this interim dividend. Consequently, pricing of the new DRP shares will be based on a **2.5%** discount to the average selling price of shares traded on the Australian Securities Exchange in the five days from the day the shares begin trading on an ex-dividend basis. The last date for the receipt of an election notice for participation in the plan is 5.00 pm (Melbourne time) on 10 February 2011.
- The final dividend for the 2010 financial year was 13 cents per share (fully franked), and it was paid to shareholders on 1 September 2010.
- 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 2010 were \$4.86, down from \$5.04 at the end of the previous corresponding period (both before allowing for interim dividends).



RECOVERY IN INCOME LIFTS OPERATING PROFIT 23 PERCENT

MEDIA RELEASE - HALF YEAR RESULT TO 31 DECEMBER 2010

27 January 2011

Profit and Dividends

AFIC's Net Operating Profit increased 22.7% to \$115.4 million over the six months to 31 December 2010 as many companies lifted dividends over the corresponding period last year. This increase was as the result of the improvement in operating conditions, cash flows and also reflected the strength of many companies' balance sheets following large capital raisings at the depth of the global financial crisis.

In particular, major bank dividends are close to or exceeding pre-financial crisis levels. Companies such as Rio Tinto and Alumina have also reinstated dividends after suspension of payment last year. AFIC's result also benefited from a non cash dividend of \$4.9 million that resulted from the demerger of Dulux Group from Orica.

Net Profit after Tax, which this year includes the movement in the unrealised value of the Company's investment in Hastings Diversified Utilities Fund as required under current accounting standards, was \$122.2 million, up from \$93.6 million last year.

The interim dividend has been maintained at 8 cents per share fully franked. The discount on the Dividend Reinvestment Plan remains at 2.5%.

Performance

The performance of the Australian equity market in six months to 31 December 2010 mirrored the current economic environment where the resources sector has rebounded strongly whilst the remainder of the economy is operating under subdued trading conditions. This has seen the S&P/ASX 200 Resources Accumulation Index increase 23.5 percent over this period whereas the broader S&P/ASX 200 Accumulation Index (of which resources is a part) increased only 12.8 per cent. Given AFIC's portfolio is orientated toward dividend paying companies rather than the more speculative parts of the resources market, AFIC's portfolio performance of a 11.4 percent increase was slightly behind the overall market. However the long term performance numbers for AFIC are still strong with a 10 year return of 9.9 percent per annum versus the market return of 8.4 percent per annum. In the case of AFIC these returns are after tax paid and expenses. The management expense ratio, which is the cost to shareholders of managing the Company, for the half year on an annualised basis, was 0.18 per cent.

Portfolio

During the period the Company made a number of purchases, some of which were via capital raisings and dividend reinvestment plans at discounted prices. The largest of these were in ANZ Banking Group, Victoria Petroleum, QBE Insurance, CFS Retail Property Trust, National Australia Bank and Santos. Victoria Petroleum, which is primarily engaged in the exploration and development of oil and gas in Cooper Basin in South Australia and Queensland and the Surat Basin Queensland, is a new company in the investment portfolio.

Major sales were in Healthscope as a result of it being taken over and Nufarm.

Outlook

AFIC enters the second half of the financial year close to fully invested. We believe company valuations appear reasonable at this point, although there is a likelihood the equity market will rise further in the near term given the expected improvement in the Australian and United States economies and the ongoing growth in China.

Whilst the impact of the ongoing demand for resources is encouraging for our large investments in BHP Billiton and Rio Tinto, we remain cautious about the remainder of the market particularly those companies that are more exposed to domestic conditions and a less buoyant operating environment. The rise in the Australian dollar will also negatively impact some companies. Ironically in the current two speed economy, many companies are facing increasing costs of doing business at a time when demand for their products and services remains subdued.

The recent floods in Eastern Australia have also added uncertainty to the outlook given the significant impact these floods have had on communities and businesses in the affected areas. This will also put added pressure on Government funding for infrastructure replacement and improvement and the general support for these communities.

In the medium to long term, sustained wealth creation for the nation and improvement in markets, depend on strong economic growth. This will require a greater resolve to bring about fiscal restraint and a revived determination for productivity improvements across the economy. In both the public and private sectors it is also important that spending decisions be directed at activities that create real value. However the current political environment makes progress in these areas less certain and this may weigh on the market.

Another important influence on the future performance of Australian equities is the outlook for the banking sector which makes up a significant part of the market. Against this background it is interesting to note the recent debate about the level of bank profitability and whether further regulation is needed. From AFIC's perspective it was encouraging to see the bank sector survive the recent global downturn and emerge as a well functioning industry that has the capability to finance Australian businesses as well as provide sound dividend returns to investors and critically for many Australian superannuants who rely on bank dividends. Also, it is important to note that in addition to the thirty percent of income banks contribute to the overall dividend return of the Australian equity market, they are also a source of interest income to many depositors.

Please direct any enquiries to:

Bruce Teele
Chairman
(03) 9679 1361

Ross Barker
Managing Director
(03) 9924 0380

Geoff Driver
General Manager
(03) 9679 1659

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

A. Acquisitions (above \$5 million)	Cost (\$'000)
ANZ Banking Group	19,669
Victoria Petroleum*	11,823
QBE Insurance	8,252
CFS Retail Property Trust	8,088
National Australia Bank	7,050
Santos	5,106

B. Disposals (above \$5 million)	Proceeds (\$'000)
Healthscope#	9,426
Nufarm#	8,737

* New stock added to the portfolio

Complete disposal from the investment portfolio. (Healthscope was taken over by Asia Pacific Healthcare Group, a company owned by funds advised and managed by The Carlyle Group and TPG Capital)

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2010

Valued at closing prices at 31 December 2010

		Total Value \$ million
1	* BHP Billiton	645.4
2	Commonwealth Bank of Australia	431.4
3	* Westpac Banking Corporation	408.3
4	Rio Tinto	305.4
5	Wesfarmers (a)	242.5
6	* National Australia Bank	225.3
7	* Australia & New Zealand Banking Group	190.9
8	Woolworths	167.3
9	Telstra Corporation	139.7
10	Woodside Petroleum	115.4
11	* Oil Search	98.5
12	* Santos	95.4
13	* QBE Insurance Group	93.8
14	Computershare	87.9
15	* Origin Energy	87.4
16	Amcor	85.2
17	Transurban Group	76.0
18	Incitec Pivot	71.6
19	* Orica	69.4
20	* AGL Energy	66.8
21	Australian Infrastructure Fund	63.4
22	* Brambles	60.8
23	AMP	58.7
24	Bradken	54.8
25	West Australian Newspapers Holdings	51.7
	Total	<u>3,993.1</u>
	As % of Total Portfolio Value (excludes Cash)	80.7%

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

(a) Includes \$45.2 million of WESN partially protected securities



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2010**

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 AC
Ross E. Barker, Managing Director
Terrence A. Campbell AO, Deputy Chairman
John Paterson
Fergus D. Ryan
Catherine M. Walter AM
Peter J. Williams

Company Secretaries: Simon M. Pordage
Andrew J.B. Porter

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 Securities Exchange):

Telephone: 1800 780 784 (toll free)

Share Registrar: Computershare Investor Services Limited
Mail Address: GPO Box 2975EE, Melbourne, Victoria 3000
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067
AFIC Shareholder enquiry lines : 1300 662 270 (Aus)
0800 333 501 (NZ)
+613 9415 4373 (from overseas)
Facsimile: (03) 9473 2500
Email: web.queries@computershare.com.au
Internet: www.computershare.com.au

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.

Stock Exchange

Code: AFI Ordinary shares

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2010 on the consolidated entity ("the Group") consisting of Australian Foundation Investment Company Limited ("the Company" and "AFIC") and its subsidiary, Australian Investment Company Services Limited ("AICS").

Directors

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

B.B. Teele (appointed June 1966)
D.R. Argus AC (appointed May 1999)
R.E. Barker (appointed September 2001)
T.A. Campbell AO (appointed September 1984)
J. Paterson (appointed June 2005)
F.D. Ryan (appointed August 2001)
C.M. Walter AM (appointed August 2002)
P.J. Williams (appointed February 2010)

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 Securities Exchange. There has been no change in the nature of the Company's activities during the period. Its primary objectives are to pay dividends which, over time, will grow at a faster rate than inflation, and to generate attractive total returns in terms of growth in net asset backing plus dividends.

Profit Performance and Dividend

Net operating profit after tax, which primarily reflects on-going earnings from the Company's long term investment portfolio, increased to \$115.4 million, up 22.7% from \$94.1 million last year. The net operating profit per share for the six months to 31 December 2010 was 11.42 cents per share with an interim dividend declared of 8 cents per share fully-franked.

Net profit after tax, which includes unrealised gains on certain investments in the investment portfolio that are defined as 'puttable instruments', was \$122.2 million, up 30.6% from the previous corresponding period.

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 11.

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in Class Order 98/100 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
27 January 2011

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half year ended 31 December 2010, 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 entities it controlled during the period.



David Coogan
Partner
PricewaterhouseCoopers

Melbourne
27 January 2011

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	Half-year 2010 \$'000	Half-year 2009 \$'000
Dividends and distributions		118,405	90,486
Revenue from deposits and bank bills		2,046	2,283
Other revenue		1,813	2,111
Total revenue		122,264	94,880
Net gains on trading portfolio		6,319	12,377
Income from operating activities	3	128,583	107,257
Finance costs		(2,039)	(2,047)
Administration expenses		(6,027)	(5,742)
Net Operating Profit before income tax expense		120,517	99,468
Income tax credit/(expense)*		(5,076)	(5,400)
Net Operating Profit for the half-year		115,441	94,068
Net gains/(losses) on investments			
Net losses on securities sold from the investment portfolio		-	(13)
Net gains on puttable instruments		9,654	-
Tax expense on net gains/(losses)*		(2,896)	(475)
		6,758	(488)
Profit for the half-year		122,199	93,580
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company Ltd		122,124	93,483
Minority Interest		75	97
		122,199	93,580
		Cents	Cents
Basic earnings per share	8	12.08	9.51
		Half-year 2010 \$'000	Half-year 2009 \$'000
* Total Tax Expense		7,972	5,875

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Half-Year to 31 December 2010			Half-Year to 31 December 2009		
	Revenue \$'000	Capital \$'000	Total \$000	Revenue \$'000	Capital \$'000	Total \$'000
Net Profit for the half-year	115,441	6,758	122,199	94,068	(488)	93,580
Other Comprehensive Income						
Unrealised gains for the period on securities in the portfolio at 31 December	-	383,043	383,043	-	990,696	990,696
Deferred tax expense on above		(118,503)	(118,503)		(292,310)	(292,310)
Plus losses for the period on securities realised	-	(4,241)	(4,241)	-	(15)	(15)
Tax credit on above	-	1,301	1,301	-	420	420
Transfer to Income Statement of cumulative losses/(gains) on investments realised prior to 7 December 2009	-	-	-	-	13	13
Tax expense on above	-	-	-	-	475	475
Net movement in fair value for interest rate swap	-	289	289	-	752	752
Total other comprehensive income ^{1,3}	-	261,889	261,889	-	700,031	700,031
Total comprehensive income ²	115,441	268,647	384,088	94,068	699,543	793,611

1 Net capital gains/(losses) not recorded through the Income Statement

2 This is the company's Net Return for the year, which includes the Net Operating Profit plus the net realised and unrealised gains or losses on the Company's investment portfolio.

3 Total tax movement in other comprehensive income : 2010 - \$(117.2)m; 2009 - \$(291.4)m

	Half-Year to 31 December 2010			Half-Year to 31 December 2009		
	Revenue \$'000	Capital \$'000	Total \$000	Revenue \$'000	Capital \$'000	Total \$000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	115,366	268,647	384,013	93,971	699,543	793,514
Minority Interest	75	-	75	97	-	97
	115,441	268,647	384,088	94,068	699,543	793,611

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010

		31 Dec 2010 \$'000	30 June 2010 \$'000
Current assets			
Cash		31,985	115,226
Receivables		8,437	31,706
Trading portfolio	4	103,849	67,108
Total current assets		144,271	214,040
Non-current assets			
Fixtures & fittings		531	596
Investment portfolio		4,843,115	4,368,980
Deferred tax assets		-	833
Total non-current assets		4,843,646	4,370,409
Total assets		4,987,917	4,584,449
Current liabilities			
Payables		2,638	3,217
Tax payable		5,334	4,564
Borrowings		50,000	50,000
Provisions		1,177	1,739
Interest-rate hedging contracts		262	551
Total current liabilities		59,411	60,071
Non-current liabilities			
Provisions		785	589
Deferred tax liabilities - investment portfolio	5	667,598	546,821
Deferred tax liabilities - other		10	-
Total non-current liabilities		668,393	547,410
Total liabilities		727,804	607,481
Net Assets		4,260,113	3,976,968
Shareholders' equity			
Share Capital	6	1,893,645	1,865,998
Revaluation Reserve		1,594,617	1,322,485
Realised Capital Gains Reserve		323,611	337,277
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		(262)	(551)
Retained Profits		424,328	427,660
Parent Entity Interest		4,259,576	3,976,506
Minority Interest		537	462
Total equity		4,260,113	3,976,968

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 2010

Attributable to members of Australian Foundation Investment Company Ltd

Half-Year 2010	Note	Share Capital \$000	Revaluation Reserve \$000	Realised Capital Gains \$000	General Reserve \$000	Interest-Rate Hedging \$000	Retained Profits \$'000	Total Parent Entity \$000	Minority Interest \$000	Total \$'000
Total equity at the beginning of the half-year		1,865,998	1,322,485	337,277	23,637	(551)	427,660	3,976,506	462	3,976,968
Dividends paid	7	-	-	(9,892)	-	-	(118,698)	(128,590)	-	(128,590)
Shares issued- Dividend Reinvestment Plan	6	27,985	-	-	-	-	-	27,985	-	27,985
Other Share Capital Adjustments	6	(338)	-	-	-	-	-	(338)	-	(338)
Total transactions with share-holders		27,647	-	(9,892)	-	-	(118,698)	(100,943)	-	(100,943)
Profit for the half-year		-	6,758	-	-	-	115,366	122,124	75	122,199
<i>Other Comprehensive Income for the half-year</i>										
Net unrealised gains for the period for stocks held at 31 December		-	264,540	-	-	-	-	264,540	-	264,540
Net losses for the period on investments realised		-	(2,940)	-	-	-	-	(2,940)	-	(2,940)
Transfer to Realised Capital Gains Reserve of cumulative losses on investments realised		-	3,774	(3,774)	-	-	-	-	-	-
Net movement in fair value of swap contracts		-	-	-	-	289	-	289	-	289
Other Comprehensive Income for the half-year		-	265,374	(3,774)	-	289	-	261,889	-	261,889
Total equity at the end of the half-year		1,893,645	1,594,617	323,611	23,637	(262)	424,328	4,259,576	537	4,260,113

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2010 (CONT)

		Attributable to members of Australian Foundation Investment Company Ltd									
Half-Year 2009	Note	Share Capital \$000	Revaluation Reserve \$000	'Impairment'	Realised Capital Gains \$000	General Reserve \$000	Interest- Rate Hedging \$000	Retained Profits \$'000	Total Parent Entity \$000	Minority Interest \$000	Total \$'000
				Revaluation Charge Reserve \$000							
Total equity at the beginning of the half-year		1,737,790	1,120,948	(107,793)	354,278	23,637	(1,455)	432,887	3,560,292	270	3,560,562
Adoption of AASB 9		-	(108,914)	107,793	-	-	-	1,121	-	-	-
Restated total equity at the beginning of the half-year		1,737,790	1,012,034	-	354,278	23,637	(1,455)	434,008	3,560,292	270	3,560,562
Dividends paid	7	-	-	-	(20,572)	-	-	(106,776)	(127,348)	-	(127,348)
Shares issued- Dividend Reinvestment Plan		27,756	-	-	-	-	-	-	27,756	-	27,756
Other Share Capital Adjustments		(28)	-	-	-	-	-	-	(28)	-	(28)
Total transactions with share-holders		27,728	-	-	(20,572)	-	-	(106,776)	(99,620)	-	(99,620)
Profit for the half-year		-	-	-	(488)	-	-	93,971	93,483	97	93,580
<i>Other Comprehensive Income for the half-year</i>											
Net unrealised gains for the period for stocks held at 31 December		-	698,386	-	-	-	-	-	698,386	-	698,386
Net losses for the period on investments realised		-	405	-	-	-	-	-	405	-	405
Transfer to Income Statement of realised losses on investments		-	488	-	-	-	-	-	488	-	488
Net movement in fair value of swap contracts		-	-	-	-	-	752	-	752	-	752
Other Comprehensive Income for the half-year		-	699,279	-	-	-	752	-	700,031	-	700,031
Total equity at the end of the half-year		1,765,518	1,711,313	-	333,218	23,637	(703)	421,203	4,254,186	367	4,254,553

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 2010

	Half-year 2010 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2009 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	14,767	58,502
Purchases for trading portfolio	(43,347)	(53,741)
Interest received	2,674	2,738
Dividends and distributions received	102,614	63,116
	76,708	70,615
Other receipts	1,819	2,124
Administration expenses	(6,401)	(5,879)
Finance costs paid	(2,139)	(2,041)
Taxes paid	(2,783)	(4,638)
Net cash inflow/(outflow) from operating activities	67,204	60,181
Cash flows from investing activities		
Sales from investment portfolio	25,207	15,280
Purchases for investment portfolio	(75,131)	(122,047)
Payment for fixed assets	-	-
Net cash inflow/(outflow) from investing activities	(49,924)	(106,767)
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
Payment for shares bought back	-	-
Share issue costs	(217)	-
Dividends paid	(100,304)	(99,170)
Net cash inflow/(outflow) from financing activities	(100,521)	(99,170)
Net increase/(decrease) in cash held	(83,241)	(145,756)
Cash at the beginning of the half-year	115,226	249,108
Cash at the end of the half-year	31,985	103,352

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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 2010 Annual Report and public announcements made by the Group during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The Group 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 as quoted on the ASX

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 2010 \$'000	Half-year 2009 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	116,063	90,015
• securities held in trading portfolio	2,251	403
	<u>118,314</u>	<u>90,418</u>
Interest income		
• securities held in investment portfolio	91	68
• deposits and income from bank bills	2,046	2,283
	<u>2,137</u>	<u>2,351</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	1,520	5,284
• unrealised gains/(losses) in trading portfolio	4,799	7,093
	<u>6,319</u>	<u>12,377</u>
Administration fees	1,812	1,707
Other income	1	404
	<u>128,583</u>	<u>107,257</u>

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 there were call options outstanding which potentially required the Company, if they were exercised, to deliver securities to the value of \$71.6 million (30 June 2010: \$38.0 million).

5. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling \$667.6 million (30 June 2010 : \$546.8 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

6. Shareholders' equity – share capital

	31 Dec 2010 Shares '000	31 Dec 2010 \$'000	30 June 2010 Shares '000	30 June 2010 \$'000
(a) Share Capital				
Ordinary shares – fully paid	1,013,151	1,894,114	1,007,133	1,866,346
Less ELTIP shares adjustment	-	(469)	-	(348)
	<u>1,013,151</u>	<u>1,893,645</u>	<u>1,007,133</u>	<u>1,865,998</u>

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
01/07/2010	Opening Balance		1,007,133		1,866,346
01/09/2010	Dividend Reinvestment Plan	i	6,018	4.65	27,985
Various	Other Share Capital adjustments		-		(217)
31/12/2010	Balance		<u>1,013,151</u>		<u>1,894,114</u>

- 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 Securities Exchange in the five days from the day the shares begin trading on an ex-dividend basis.
- ii The Company introduced an on-market Buy-Back Programme in December 2000. This plan remains active.

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

Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Closing balance
01/07/2010	347,853	-	(89,431)		258,422
20/08/2010	-	235,080	(24,492)	-	210,588
<i>Total</i>	<u>347,853</u>	<u>235,080</u>	<u>(113,923)</u>	<u>-</u>	<u>469,010</u>

7. Dividends

Half-year
2010
\$000

Half-year
2009
\$000

Dividends paid during the period	128,590 (13 cents per share)	127,348 (13 cents per share)
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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 25 February 2011, but not recognised as a liability at the end of the half-year is

81,052

8. Earnings per Share

Half-year
2010

Half-year
2009

	Number	Number
Weighted average number of ordinary shares used as the denominator	1,011,090,722	983,492,502
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the company	122,124	93,483
	Cents	Cents
Basic earnings per share	12.08	9.51
	\$'000	\$'000
Net operating profit after tax for the half-year	115,441	94,068
	Cents	Cents
Net operating profit per share	11.42	9.56

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted net return per share is the same as Basic Net Return 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 2010 to the date of this report there has been no event specific to the Company 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 21 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 2010 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
27 January 2011

**Independent auditor's 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 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises both Australian Foundation Investment Company Limited (the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's 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 2010 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 Australian Foundation Investment Company Limited, 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. 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.

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.

**Independent auditor's review report to the members of
Australian Foundation Investment Company Limited
(continued)**

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 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



David Coogan
Partner

Melbourne
27 January 2010