



ABN. 56 004 147 120.

**APPENDIX 4D STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

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 2011 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2011 with the previous corresponding period being the half-year ended 31 December 2010. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities (excluding capital gains) was \$126.8 million, 3.7% up from the previous corresponding period.
- Profit after tax attributable to members was \$113.6 million (down 7.0% on last year's \$122.1 million). This figure includes unrealised gains on certain investments in the investment portfolio that are defined as 'puttable instruments' or non-equity investments.
- Net Operating Result after tax was \$105.5 million, 8.6% down from the previous corresponding period.
- The interim dividend is 8 cents per share, fully franked, the same as last year's interim dividend. It will be paid on 24 February 2012 to ordinary shareholders on the register on 9 February 2012 and the shares are expected to commence trading on an ex-dividend basis on 3 February 2012.
- 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. The price of shares issued under the Dividend Reinvestment Plan will be 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. No discount applies. The last date for the receipt of an election notice for participation in the plan is 5.00 pm (Melbourne time) on 9 February 2012.
- The final dividend for the 2011 financial year was 13 cents per share (fully franked), and it was paid to shareholders on 31 August 2011.
- 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 2011 were \$4.29, down from \$4.86 at the end of the previous corresponding period (both before allowing for interim dividends).
- The first interest payment on the 6.25% Convertible Notes issued in December 2011 will be \$1.2158 per \$100 Note, payable on 28 February 2012 to note holders on the register on 20 February 2012. The notes are expected to commence trading on an ex-interest basis on 14 February 2012.



AFIC HAS CASH FOR OPPORTUNITIES IN VOLATILE MARKET

MEDIA RELEASE - HALF YEAR RESULT TO 31 DECEMBER 2011

The Australian equity market experienced a weak six months to 31 December 2011. As measured by the S&P/ASX 200 Accumulation Index the market was down 9.7%. The return from AFIC's portfolio over the same period was down 7.8%, which was ahead of the Index.

AFIC reported a Profit for the half year of \$113.6 million, down 7.0% from \$122.2 million for the corresponding period last year. The Net Operating Result which measures the underlying income generated by the portfolio was \$105.5 million in comparison to \$115.4 million last year. The decline was primarily as result of the fall in the valuation of the trading portfolio which is marked to market through the profit and loss account. The trading portfolio remains low as a percentage of total investments (around 2.6%).

The interim dividend has been maintained at 8 cents per share fully franked.

AFIC's investment style is to be a long term investor. It seeks to invest in quality companies with strong businesses, prudent gearing and good cash flows which are able to support growing dividends over time. The ten year return on the portfolio to 31 December 2011 which is more in line with AFIC's timeframe was 7.4% per annum versus 6.2% per annum for the Index. AFIC's performance is after tax and fees paid.

A number of changes were made to the portfolio during the half. The largest acquisitions were in Ansell, ANZ, BHP Billiton to replace the stock sold into the off market buy back last financial year, Woodside Petroleum, National Australia Bank, InvoCare and Telstra Corporation. Ansell is a new company to the portfolio. The Company disposed of its holdings in Foster's Group and Eastern Star Gas as a result of takeovers. It also sold its entire holdings in Commonwealth Property Office Fund, APN News & Media and Fairfax Media.

In our view there is likely to be further uncertainty in the coming months as the political and economic events continue to play out in Europe. The Australian economy continues to benefit from investment in mining and energy projects although the remainder of the domestic economy is wrestling with the impact of a strong Australian dollar, relatively high interest rates, hesitant consumers, rising input costs and unemployment.

Our view has also not changed from 12 months ago when we highlighted the need for policy leadership in addressing declining productivity which is currently being masked by the strong terms of trade Australia is presently enjoying. However the present political environment is making policy progress less certain which negatively impacts investment sentiment.

However against this background emerging economies are still growing and the United States is showing some signs of improvement. If this trend continues and there is a move towards a sustainable solution in Europe, investors may be inclined to take on more risk and markets should improve.

Recently AFIC successfully completed an issue of unsecured convertible notes which raised over \$220 million. This provides AFIC with funds to add to its investments when the market provides opportunities to buy quality companies at what we see as historically low valuations.

Please direct any enquiries to:

Ross Barker
Managing Director
(03) 9225 2101

Geoff Driver
General Manager
(03) 9225 2102

25 January 2012

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (above \$5 million)	Cost (\$'000)
Ansell*	14,318
Australia and New Zealand Banking Group	12,488
BHP Billiton	10,655
Woodside Petroleum	10,195
National Australia Bank	7,582
InvoCare	7,312
Telstra Corporation	6,943
Tox Free Solutions	6,561
Santos	6,137
Ramsay Health Care	5,599
Origin Energy	5,573
Incitec Pivot	5,310
AMP	5,011
Disposals (above \$5 million)	Proceeds (\$'000)
Foster's Group # (a)	35,243
Commonwealth Property Office Fund #	21,887
Eastern Star Gas # (b)	12,537
APN News & Media #	8,866
Fairfax Media #	6,976
Perpetual (c)	6,016

* New stock added to the investment portfolio

Complete disposal from the investment portfolio

(a) Takeover by SABMiller plc

(b) Sold while under and into the takeover offer from Santos Limited

(c) Participation in the off-market share buyback

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2011

Valued at closing prices at 30 December 2011

			Total Value \$ million
1	*	BHP Billiton	494.0
2	*	Commonwealth Bank of Australia	419.9
3	*	Westpac Banking Corporation	369.5
4	*	National Australia Bank	235.4
5		Wesfarmers (a)	225.0
6		Rio Tinto	216.8
7	*	Australia & New Zealand Banking Group	187.6
8		Telstra Corporation	174.1
9		Woolworths	156.0
10	*	Santos	94.9
11		Woodside Petroleum	92.5
12		Ancor	91.0
13	*	Origin Energy	89.6
14	*	Oil Search	88.1
15		Transurban Group	86.5
16	*	AMP	77.6
17		QBE Insurance Group	75.9
18	*	Orica	70.1
19		Australian Infrastructure Fund	66.7
20		Computershare	65.3
21	*	Brambles	64.6
22		Incitec Pivot	62.7
23		AGL Energy	62.4
24	*	Coca-Cola Amatil	54.4
25		Hastings Diversified Utilities Fund	53.5
Total			3,674.1
As % of Total Portfolio Value (excludes Cash)			83.0%

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

(a) Includes \$41.7 million of WESN partially protected securities

PORTFOLIO PERFORMANCE TO 31 DECEMBER 2011

PERFORMANCE MEASURES	ANNUALISED RETURNS				
	6 MONTH	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<i>NET ASSET BACKING</i>	-7.8%	-7.8%	9.0%	0.1%	7.4%
S&P/ASX 200 ACCUMULATION INDEX	-9.7%	-10.5%	7.6%	-2.3%	6.2%
S&P/ASX 200 BANKS ACCUMULATION INDEX	-4.3%	-0.6%	16.4%	0.7%	7.3%
S&P/ASX 200 INDUSTRIALS ACCUMULATION INDEX	-4.4%	-3.5%	8.0%	-3.8%	4.5%
S&P/ASX 200 RESOURCES ACCUMULATION INDEX	-20.9%	-24.6%	6.9%	3.1%	13.5%



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2011**

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 2975, Melbourne, Victoria 3001
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
Internet: www.investorcentre.com/contact

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

Securities Exchange

Codes: AFI Ordinary shares
AFIG 6.25% 2017 Convertible Notes

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2011 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.

During the period, the Company issued \$222.7 million of Convertible Notes which expire in February 2017. They pay interest half-yearly at an annual rate of 6.25% and are convertible into ordinary shares of the Company at an equivalent exercise price of \$5.0864 on the interest payment dates, at the option of the Holder. The Notes are listed on the ASX under the code "AFIG."

Profit Performance and Dividend

Net profit after tax, which includes unrealised gains on certain investments in the investment portfolio that are defined as 'puttable instruments' or non-equity investments, was \$113.6 million, down 7.0% from the previous corresponding period.

Net operating result after tax, which primarily reflects on-going earnings from the Company's long term investment portfolio, decreased to \$105.5 million, down 8.6% from \$115.4 million last year. The net operating result per share for the six months to 31 December 2011 was 10.3 cents per share with an interim dividend declared of 8 cents per share fully-franked.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was -7.8% compared to the return of the A&P/ASX 200 Accumulation Index for the same period which was -9.7%.

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 12.

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.

A handwritten signature in black ink, appearing to read 'John Paterson', written in a cursive style.

John Paterson
Director
Melbourne
25 January 2012



Auditor's Independence Declaration

As lead auditor for the review of Australia Foundation Investment Company Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in blue ink, appearing to read 'D Coogan', is written over a horizontal line.

David Coogan
Partner
PricewaterhouseCoopers

Melbourne
25 January 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
DX 77 Melbourne, Australia
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Half-year 2011 \$'000	Half-year 2010 \$'000
Dividends and distributions		123,437	118,405
Revenue from deposits and bank bills		1,318	2,046
Other revenue		2,067	1,813
Total revenue		126,822	122,264
Net (losses)/gains on trading portfolio		(12,997)	6,319
Income from operating activities	3	113,825	128,583
Finance & related costs		(4,187)	(2,039)
Administration expenses		(6,469)	(6,027)
Net operating result before income tax expense		103,169	120,517
Income tax credit/(expense)*		2,288	(5,076)
Net operating result for the half-year		105,457	115,441
Net gains on investments			
Net gains on puttable instruments and non-equity investments		11,701	9,654
Tax expense on net gains*		(3,510)	(2,896)
		8,191	6,758
Profit for the half-year		113,648	122,199
Profit is attributable to :			
Equity holders (members) of Australian Foundation Investment Company Ltd		113,585	122,124
Minority Interest		63	75
		113,648	122,199
		Cents	Cents
Basic earnings per share	9	11.12	12.08
Diluted earnings per share	9	11.12	12.08
		Half-year 2011 \$'000	Half-year 2010 \$'000
* Total Tax Expense		1,222	7,972

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-Year to 31 December 2011			Half-Year to 31 December 2010		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
Net Profit for the half-year	105,457	8,191	113,648	115,441	6,758	122,199
Other Comprehensive Income						
Unrealised (losses)/gains for the period on securities in the portfolio at 31 December	-	(509,146)	(509,146)	-	383,043	383,043
Deferred tax credit/(expense) on above	-	154,007	154,007	-	(118,503)	(118,503)
Losses for the period on securities realised	-	(3,343)	(3,343)	-	(4,241)	(4,241)
Tax credit on above	-	1,011	1,011	-	1,301	1,301
Net movement in fair value for interest rate swap	-	(499)	(499)	-	289	289
Total other comprehensive income ^{1,3}	-	(357,970)	(357,970)	-	261,889	261,889
Total comprehensive income ²	105,457	(349,779)	(244,322)	115,441	268,647	384,088

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

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

3 Total tax movement in other comprehensive income : 2011 - \$155.0m; 2010 - \$(117.2)m

	Half-Year to 31 December 2011			Half-Year to 31 December 2010		
	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	105,394	(349,779)	(244,385)	115,366	268,647	384,013
Minority Interest	63	-	63	75	-	75
	105,457	(349,779)	(244,322)	115,441	268,647	384,088

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011

		31 Dec 2011 \$'000	30 June 2011 \$'000
Current assets			
Cash		251,545	7,344
Receivables		13,475	38,302
Trading portfolio	4	120,826	125,419
Total current assets		<u>385,846</u>	<u>171,065</u>
Non-current assets			
Fixtures & fittings		401	466
Investment portfolio		4,304,239	4,759,268
Deferred tax assets		24,392	1,505
Total non-current assets		<u>4,329,032</u>	<u>4,761,239</u>
Total assets		<u>4,714,878</u>	<u>4,932,304</u>
Current liabilities			
Payables		3,203	2,099
Tax payable		1,579	7,237
Borrowings		100,000	50,000
Provisions		1,220	1,989
Interest-rate hedging contracts		595	96
Total current liabilities		<u>106,597</u>	<u>61,421</u>
Non-current liabilities			
Provisions		1,213	948
Convertible Notes	5	218,546	-
Deferred tax liabilities - investment portfolio	6	502,131	635,140
Total non-current liabilities		<u>721,890</u>	<u>636,088</u>
Total liabilities		<u>828,487</u>	<u>697,509</u>
Net Assets		<u>3,886,391</u>	<u>4,234,795</u>
Shareholders' equity			
Share Capital	7	1,939,555	1,911,440
Revaluation Reserve		1,193,854	1,492,700
Realised Capital Gains Reserve		299,951	350,385
General Reserve		23,637	23,637
Interest-rate Hedging Reserve		(595)	(96)
Retained Profits		429,363	456,166
Parent Entity Interest		<u>3,885,765</u>	<u>4,234,232</u>
Minority Interest		626	563
Total equity		<u>3,886,391</u>	<u>4,234,795</u>

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 2011

Attributable to members of Australian Foundation Investment Company Ltd

Half-Year to 31 December 2011	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		1,911,440	1,492,700	350,385	23,637	(96)	456,166	4,234,232	563	4,234,795
Dividends paid	8	-	-	-	-	-	(132,197)	(132,197)	-	(132,197)
Shares issued- Dividend Reinvestment Plan	7	28,309	-	-	-	-	-	28,309	-	28,309
Other Share Capital Adjustments	7	(194)	-	-	-	-	-	(194)	-	(194)
Total transactions with share-holders		28,115	-	-	-	-	(132,197)	(104,082)	-	(104,082)
Profit for the half-year		-	8,191	-	-	-	105,394	113,585	63	113,648
<i>Other Comprehensive Income for the half-year</i>										
Net unrealised losses for the period for investments held at 31 December		-	(355,139)	-	-	-	-	(355,139)	-	(355,139)
Net losses for the period on investments realised		-	(2,332)	-	-	-	-	(2,332)	-	(2,332)
Transfer to Realised Capital Gains Reserve of cumulative losses on investments sold		-	50,434	(50,434)	-	-	-	-	-	-
Net movement in fair value of swap contracts		-	-	-	-	(499)	-	(499)	-	(499)
Other Comprehensive Income for the half-year		-	(307,037)	(50,434)	-	(499)	-	(357,970)	-	(357,970)
Total equity at the end of the half-year		1,939,555	1,193,854	299,951	23,637	(595)	429,363	3,885,765	626	3,886,391

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. 2011 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd

Half-Year to 31 December 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	8	-	-	(9,892)	-	-	(118,698)	(128,590)	-	(128,590)
Shares issued- Dividend Reinvestment Plan		27,985	-	-	-	-	-	27,985	-	27,985
Other Share Capital Adjustments		(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 investments 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 sold		-	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 CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-year 2011 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2010 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	19,225	14,767
Purchases for trading portfolio	(2,696)	(43,347)
Interest received	1,101	2,674
Dividends and distributions received	110,432	102,614
	<u>128,062</u>	<u>76,708</u>
Other receipts	2,075	1,819
Administration expenses	(5,973)	(6,401)
Finance costs paid	(4,357)	(2,139)
Taxes paid	(7,771)	(2,783)
Net cash inflow/(outflow) from operating activities	<u>112,036</u>	<u>67,204</u>
Cash flows from investing activities		
Sales from investment portfolio	98,967	25,207
Purchases for investment portfolio	(131,524)	(75,131)
Net cash inflow/(outflow) from investing activities	<u>(32,557)</u>	<u>(49,924)</u>
Cash flows from financing activities		
Proceeds from bank borrowings	50,000	-
Repayment of bank borrowings	-	-
Proceeds from Convertible Note issue	222,651	-
Convertible Note issue costs	(4,105)	
Share issue costs	(29)	(217)
Dividends paid	(103,795)	(100,304)
Net cash inflow/(outflow) from financing activities	<u>164,722</u>	<u>(100,521)</u>
Net increase/(decrease) in cash held	244,201	(83,241)
Cash at the beginning of the half-year	7,344	115,226
Cash at the end of the half-year	<u>251,545</u>	<u>31,985</u>

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 2011

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 2011 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

a. Convertible Notes

On the issue of convertible notes, the Group estimates the fair value of the liability component of the convertible notes, being the obligation to make future payments of principal and interest to Holders, using a market interest rate for a non-convertible note of similar terms and conditions. The residual amount is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods. The liability component is then included in borrowings. Expenses incurred in connection with the issue of the notes are deducted from the total face value and the expense incurred over the life of the Notes

The total liability is subsequently carried on an amortised cost basis with interest on the notes recognised as borrowing costs on an effective yield basis until the liability is extinguished on conversion or maturity of the notes.

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 2011 \$'000	Half-year 2010 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	119,105	116,063
• securities held in trading portfolio	4,208	2,251
	<u>123,313</u>	<u>118,314</u>
Interest income		
• securities held in investment portfolio	124	91
• deposits and income from bank bills	1,318	2,046
	<u>1,442</u>	<u>2,137</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	529	1,520
• unrealised gains/(losses) in trading portfolio	(13,526)	4,799
	<u>(12,997)</u>	<u>6,319</u>
Administration fees received from other Listed Investment Companies	1,856	1,672
Expenses recovered from other Listed Investment Companies	96	101
Other expenses recovered	46	39
Other income	69	1
	<u>113,825</u>	<u>128,583</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, if they were exercised, would require the Company to deliver securities to the value of \$62.6 million (30 June 2011: \$31.1 million).

5. Non-current liabilities – convertible notes

	Half-year 2011 \$'000	Half-year 2010 \$'000
Non-current unsecured – convertible notes at amortised cost	218,546	-

There were 2,226,511 convertible notes outstanding at 31 December 2011 each with a face value of \$100 which were issued on 19 December 2011. These notes carry an interest entitlement of 6.25 per cent per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of \$5.0864 per share on 28 February or 31 August each year until 28 February 2017. Notes not converted will be redeemed at their face value on 28 February 2017. At 31 December 2011, the face value of the convertible notes was \$222.7 million. Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd.

As per Note 1a, at issuance the residual value of the equity component of the convertible notes

was calculated as nil.

6. 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 \$502.1 million (30 June 2011 : \$635.1 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

7. Shareholders' equity – share capital

	31 Dec 2011 Shares '000	31 Dec 2011 \$'000	30 June 2011 Shares '000	30 June 2011 \$'000
(a) Share Capital				
Ordinary shares – fully paid	1,023,676	1,940,079	1,016,903	1,911,799
Less ELTIP shares adjustment	-	(524)	-	(359)
		<u>1,939,555</u>	<u>1,016,903</u>	<u>1,911,440</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
01/07/2011	Opening Balance		1,016,903		1,911,799
31/08/2011	Dividend Reinvestment Plan	i	6,773	4.18	28,309
Various	Other Share Capital adjustments		-		(29)
31/12/2011	Balance		<u>1,023,676</u>		<u>1,940,079</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
01/07/2011	359,099	-	(86,323)	-	272,776
20/08/2011	-	280,040	(29,178)	-	250,862
<i>Total</i>	<u>359,099</u>	<u>280,040</u>	<u>(115,501)</u>	-	<u>523,638</u>

8. Dividends	Half-year 2011 \$'000	Half-year 2010 \$'000
Dividends paid during the period	132,197 (13 cents per share)	128,590 (13 cents per share)
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 24 February 2012, but not recognised as a liability at the end of the half-year is	81,894	
9. Earnings per Share	Half-year 2011	Half-year 2010
	Number	Number
Weighted average number of ordinary shares used as the denominator	1,021,393,699	1,011,090,722
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the company	113,585	122,124
	Cents	Cents
Basic earnings per share	11.12	12.08
	\$'000	\$'000
Net operating result after tax for the half-year	105,457	115,441
	Cents	Cents
Net operating result per share	10.32	11.42
Diluted*		
	Number	Number
Weighted average number of ordinary shares attributable to members of the company	1,021,393,699	1,011,090,722
Weighted maximum number of potential shares as a result of possible conversion	3,092,715	-
	<hr/> 1,024,486,414	<hr/> 1,011,090,722
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the company	113,585	122,124
Interest on convertible notes (after tax)	320	-
Adjusted profit after tax attributable to members of the company	<hr/> 113,905	<hr/> 122,124
	Cents	Cents
Diluted earnings per share	11.12	12.08

	Half-year 2011 \$'000	Half-year 2010 \$'000
Net operating result after tax for the half-year	105,457	115,441
Interest on convertible notes (after tax)	320	-
Adjusted net operating result after tax	<u>105,777</u>	<u>115,441</u>
	Cents	Cents
Diluted net operating result per share	10.32	11.42

*The calculation of diluted earnings per share for the half-year ended 31 December 2011 adjusts the profit or the net operating result attributable to ordinary equity holders and the weighted average number of shares on issue for the effect of the convertible notes on issue at 31 December 2011.

10. Events subsequent to balance date

Since 31 December 2011 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.

11. 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 13 to 23 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 2011 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.



John Paterson
Director
Melbourne
25 January 2012



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 2011, 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 Australian Foundation Investment Company Limited (the company).

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 company's financial position as at 31 December 2011 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. 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
DX 77 Melbourne, Australia
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.




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 company's financial position as at 31 December 2011 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


David Coogan
Partner

Melbourne
25 January 2012