

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

## CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 55<sup>th</sup> ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 15 OCTOBER 2009 AT 11.00 AM

Ladies and Gentlemen,

Welcome to this year's Annual General Meeting.

For the financial year just ended the Company's operating profit after income tax and before net realised investment gains was \$29.3M compared to \$30.6M in the previous year – a decrease of 4%, or steady on last year if special dividends received in both periods are disregarded.

The steady operating profit reflects a decline in dividends and trust distributions received (excluding the special dividends received in both periods), an increase in interest received, a decline in interest paid and an increase in income tax expense.

The operating earnings per share excluding net realised gains were 30.5 cents, compared to 35.2 cents for the previous year. Excluding special dividends received, earnings per share were 29.6 cents, down from 32.5 cents last year. The fall in earnings per share reflects the increase in the weighted average number of ordinary shares for the year from 87 million to 96 million, an increase of 10%.

This year special dividends totalling \$901,920 after tax were received from Tatts Group, Virgin Blue, Origin Energy, St. George Bank and Australian Worldwide Exploration. In 2008, special dividends of \$2,303,577 after tax were received.

The total net profit after tax for the year of \$13.5M is after realised losses of \$5.5M, and after unrealised impairment losses of \$10.3M which are required under current accounting standards, to be transferred to the income statement from the revaluation reserve. This unrealised impairment charge does not affect the Company's net asset backing per share as the portfolio is revalued to market prices continuously. Unrealised impairment losses are not part of operating profit which is used by directors as the basis for determining the amount to be paid as dividends.

We are of the view that the shorter term approach contained in international accounting standard AASB 139 is inappropriate for an Australian listed equity investment company with a long term investment horizon. We understand the accounting standard is likely to change again this year.

Bank borrowings were \$83M at the end of the financial year (previous year \$50M) amounting to around 12% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$41M, or 6% of the investment portfolio at market values (previous year \$37M, or 5%).

Annual interest expense was covered 9.6 times by investment revenue.

Around \$409,000 of new equity was raised in July 2008 through a Share Purchase Plan at \$7.81 per share.

The Company's operating expenses (excluding borrowing costs) expressed as a percentage of the average market value of the portfolio were equivalent to 0.13%, compared to 0.10% last year. The modest increase arises from the lower market value of the portfolio.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was \$6.02 at 30 June 2009, compared to \$7.95 at 30 June 2008. The Company's compound annual growth in net asset backing (assuming all dividends were re-invested) compared to the S&P/ASX 300 Accumulation Index in each of the past one, three and five year periods is as follows:

To 30 June 2009	AUI Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	(21.3)	(20.3)
3 Years	(3.9)	(3.9)
5 Years	8.2	6.8

The final dividend for the year ending 30 June 2009 is 13.5 cents per share fully franked which, with the interim dividend of 11.5 cents per share fully franked, makes a total dividend for the year of 25 cents per share fully franked which is steady on the previous year.

One cent per share of the final dividend was paid in the form of a Listed Investment Company capital gain dividend.

This year's dividend payment dates are several weeks earlier than in previous years and directors intend to continue this timetable in future.

*Continued over*

The portfolio of the Company is invested in Australian equities and at balance date was spread over 40 companies. The Annual Report provides a list of the shareholdings at 30 June 2009 and 30 June 2008; the changes to the portfolio during the year; the percentage of the investment portfolio in terms of market values of each investment; and the twenty-five largest investments ranked in order of size at 30 June 2009.

The largest investments in terms of market value at balance date were BHP Billiton, Rio Tinto, Westpac, ANZ Bank, Woodside Petroleum and Commonwealth Bank. These six investments at 30 June 2009 comprised 43% of the portfolio and our twenty-five largest investments comprised 88% of the portfolio.

In the year to 30 June 2009 the portfolio was revalued down by \$192M to a market value of \$623M (2008: revalued down by \$125M to a market value of \$772M), the change being taken directly to the asset revaluation reserve.

The share portfolio was invested as to 74% in the top 20 companies by market capitalisation; 15% in companies 21 to 50 in size; 3% in companies 51 to 100; and 8% in companies outside the largest 100 companies.

At 30 June 2009 the main sectors of the portfolio were Resources 29%, Banking 23%, and Retailing 9%. Cash on hand at 30 June 2009 was 6.2% of the portfolio. Net debt was \$42M.

Since the end of the financial year, we have taken up our entitlements in the issues by National Australia Bank, SP Ausnet and Telstra. We have added to our holdings in Consolidated Media, Telstra, Orica, Commonwealth Bank and Foster's Group, purchased holdings in Mystate, Ramsay Healthcare and Healthscope, reduced our holding in Alesco and sold our holding in Over Fifties Group.

As at 30 September 2009 the main sectors of the portfolio were Resources 28%, Banking 27%, Retailing 8% and Diversified Financials 7%. Net debt was \$60M.-

Our net asset backing per share based on investments at market values and after provision for tax on net realised gains, but not unrealised gains, and after provision for the final dividend was \$5.89 at 30 June, 2009 and \$7.28 at 30 September, 2009.

AUI is a long term investor and does not intend disposing of its total portfolio. However, under current accounting standards the Company is required to provide for estimated tax that would arise on a theoretical disposal of the entire portfolio. After deducting this provision the net asset backing at 30 June 2009 was \$5.27 per share and at 30 September 2009 was \$6.27.

### Outlook:

We expect the Company's dividend income and operating profit to be lower in the current financial year as companies in which investments are held continue to navigate challenging economic times and in the majority of cases have foreshadowed lower dividends.

We are hopeful of maintaining the dividend rate in the current financial year although this may require drawing modestly on previously undistributed retained profits.

We expect the recovery we have experienced in the share market to be maintained and we therefore expect the current year to show a good increase in our net asset backing per share.

There are still many imbalances in the economies of the world to be addressed and the out workings of the recovery from the Global Financial Crisis are considerable and will take time. It may well be the case of two steps forward and one step back but we think we have passed the worst and there are signs that a base for recovery has been formed.

Having drawn down our borrowings, we have some cash on hand to invest in the share market on any retreat from current levels. We consider the market has risen ahead of the economic recovery and this is not unusual. We remain confident of the medium term economic outlook, especially for Australia.

Charles Goode  
Chairman