

2011
ANNUAL
FINANCIAL
REPORT



Australian United Investment
Company Limited
ABN 37 004 268 679

Directory

Directors

C B Goode AC Chairman
P J B Rose AO
P J Wetherall
J S Craig

Company Secretary

Andrew J Hancock FCA

Registered Office

Level 20
101 Collins Street
Melbourne Vic 3000
Tel: (613) 9654 0499
Fax: (613) 9654 3499
Email: info@au.com.au
Website: www.au.com.au

Bankers

National Australia Bank Limited
ANZ Banking Group Ltd

Auditors

KPMG
Chartered Accountants

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14
Sydney South NSW 1235
Tel: (612) 8280 7644
Fax: (612) 9287 0303
Email: registrars@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

Securities Exchange

The Company is listed on the Australian Securities Exchange Ltd.
ASX Code: AUI

	Page
Chairman's Report	2
Corporate Governance Statement	5
Directors' Report	8
Lead Auditor's Independence Declaration	13
Income Statement	14
Statement of Comprehensive Income	15
Balance Sheet	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Notes to the Financial Statements	19
Directors' Declaration	32
Independent Auditors Report	33
Additional Information	35
List of Investments	37

Chairman's Report

I present the Annual Report of Australian United Investment Company Limited for the year ended 30 June 2011.

The operating profit after income tax, excluding net realised gains on the investment portfolio, was \$32,703,590 compared to \$26,628,080 in the previous year, an increase of 23% or 15% if special dividends and distributions of \$2,021,500 received for the year from Orica and MAP Group are excluded. No special dividends or distributions were received in the previous year.

The total net profit after tax for the year of \$32,703,590 excludes net realised gains and losses which are transferred directly to the Asset Revaluation Reserve under revised accounting standards. The prior period total net profit of \$27,378,007 included \$749,927 net realised gains after tax up to the date of adoption of the new standards on 7 December 2009.

The weighted average number of ordinary shares for the year was 104,247,623 compared to 99,193,947 in the previous year, an increase of 5%.

The operating earnings per share were 31.4 cents compared to 26.8 cents for the previous year.

Bank borrowings were \$100 million at the end of the financial year (previous year \$97 million) amounting to around 12% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$22 million, or 3% of the investment portfolio at market values (previous year \$12 million, or 2%).

Annual interest expense was covered 6.1 times by investment revenue.

\$15,575,000 of new equity was raised through the share purchase plan in October 2010 of 2,426,619 new shares at \$6.42 per share.

The net asset backing per share before provision for estimated tax on unrealised gains and the final dividend was \$7.24 at 30 June 2011, compared to \$6.68 at 30 June 2010.

Operating expenses (excluding borrowing costs) were 0.12% of the average market value of the portfolio compared to 0.15% in 2010.

The final dividend for the year ending 30 June 2011 is 14.5¢ per share fully franked which, with the interim dividend of 12¢ per share fully franked, makes 26.5¢ per share fully franked for the year. This compares with 25.5¢ per share fully franked in the previous year, an increase of 4%.

The final dividend will not include a Listed Investment Company capital gain dividend.

Dividends paid or payable for each of the last 5 financial years are as follows:

2006/07	23.0 cents per share
2007/08	25.0 cents per share
2008/09	25.0 cents per share
2009/10	25.5 cents per share
2010/11	26.5 cents per share

The Company's reported net tangible asset backing per share before provision for the final dividend (based on investments at market values and after provision for tax on net realised gains but not on unrealised gains) over each of the last 5 years was as follows:

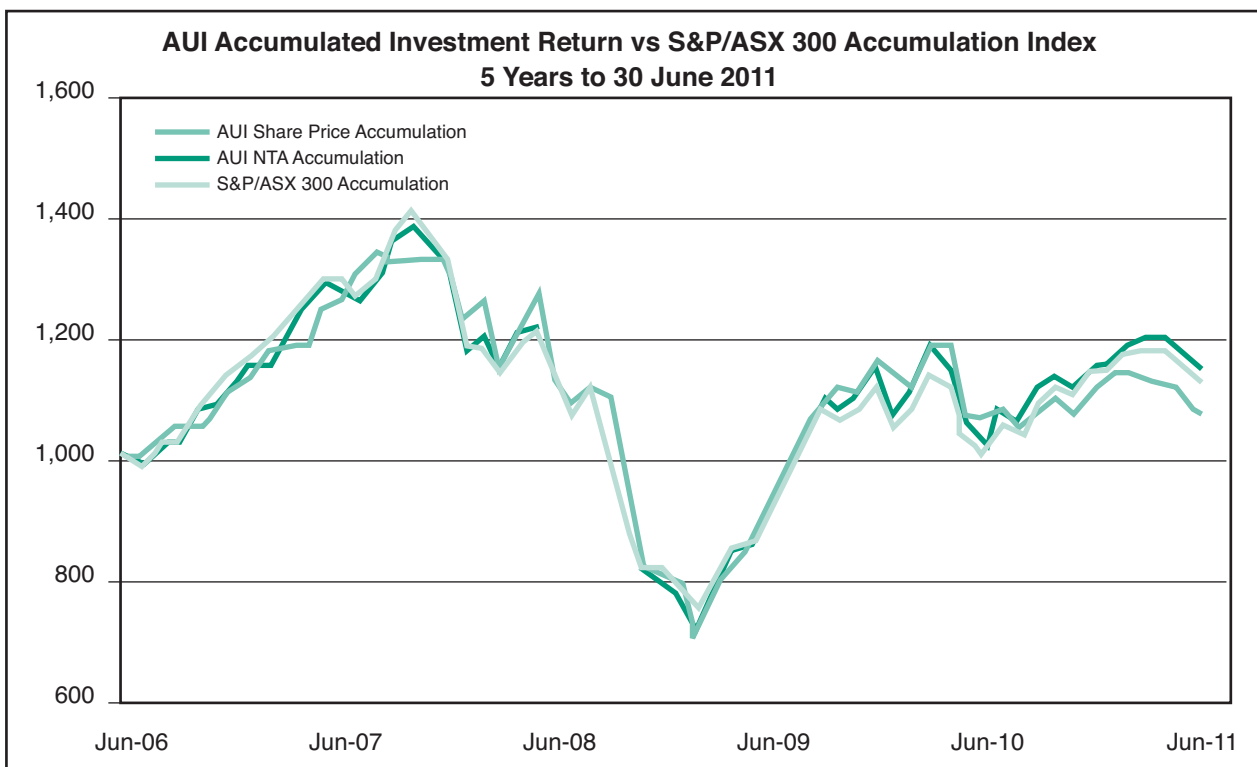
30 June 2007	\$9.35
30 June 2008	\$7.95 (after the placement of 7,987,300 shares at \$8.27 per share, May 2008)
30 June 2009	\$6.02
30 June 2010	\$6.68 (after the placement of 2,833,565 shares at \$7.28 per share, April 2010)
30 June 2011	\$7.24 (after the issue of 2,426,619 shares at \$6.42 per share under the share purchase plan in October 2010)

The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the recent disruption in global financial markets.

The Company's performance to 30 June in recent years (assuming all dividends were re-invested) is as follows:

	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	12.4	0.7	11.9
3 Years	(0.5)	(1.9)	0.3
5 Years	2.8	1.4	2.4
10 Years	8.4	8.7	7.2

The following graph shows the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) assuming all dividends were re-invested, as compared to the S&P/ASX 300 Accumulation Index over the last five years.



Source: Goldman Sachs JB Were

Chairman's Report

The equity portfolio of the Company is invested in Australian equities and at 30 June 2011 was spread over 44 companies. The Annual Report provides a list of the shareholdings at 30 June 2011 and 30 June 2010, the changes to the portfolio during the year and the market values as at 30 June 2011 of each investment together with its percentage of the portfolio.

As at 30 June 2011 the twenty-five largest shareholdings of the company, at market values were:

Company	Market Value \$'000	% of Market Value of Total Investment
1. BHP Billiton Ltd	91,980	10.7%
2. Rio Tinto Ltd	75,936	8.8%
3. ANZ Banking Group Ltd	58,300	6.8%
4. Commonwealth Bank Ltd	52,300	6.1%
5. Woodside Petroleum Ltd	51,250	6.0%
6. National Australia Bank Ltd	51,240	6.0%
7. Westpac Banking Corporation Ltd	48,972	5.7%
8. Wesfarmers Ltd PPS & Ordinary	46,222	5.4%
9. Woolworths Ltd	33,300	3.9%
10. Diversified United Investment Ltd	32,520	3.8%
11. Orica Ltd	26,940	3.1%
12. QBE Insurance Group Ltd	24,150	2.8%
13. Alumina Ltd	20,446	2.4%
14. Origin Energy Ltd	18,948	2.2%
15. AMP Ltd	15,648	1.8%
16. AGL Energy Ltd	14,650	1.7%
17. Santos Ltd	13,540	1.6%
18. Brambles Ltd	12,996	1.5%
19. Westfield Group	10,392	1.2%
20. CSL Ltd	9,918	1.1%
21. SP AusNet	9,450	1.1%
22. Mystate Ltd	9,126	1.1%
23. Transurban Group	8,891	1.0%
24. Perpetual Ltd	8,726	1.0%
25. Telstra Corporation Ltd	8,670	1.0%
	754,511	87.8%
Total Investments at Market Value, Short Term Receivables and Cash	859,753	



Charles Goode
Chairman
12 August 2011

Corporate Governance Statement

The Company has adopted corporate governance principles in accordance with the Australian Securities Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations". Any material departures from the recommendations are referred to in this statement.

1. Accountability and Responsibility

The Board is accountable to the shareholders and is responsible for:

- Setting strategic and financial objectives;
- Monitoring the Company's performance and financial position and overseeing the financial accounts and reporting;
- Identifying and managing business and compliance risks;
- Managing the Company's investment portfolio;
- Overseeing relationships with outside service providers;
- Appointing the Company Secretary and setting and overseeing responsibilities delegated to the Company Secretary; and
- Setting ethical standards for the Company.

2. Composition

The Board currently comprises 4 directors. The Company's constitution requires a minimum of 3 and not more than 6 directors. Other than the Company Secretary the Company has no executives or executive directors. If a vacancy arises the Nomination and Remuneration Committee chooses the best available candidate using professional advice if this is deemed necessary. In this process the Company has a neutral approach to gender diversity. An appointed director then submits themselves for election by shareholders at the next Annual General Meeting.

Mr C B Goode and Dr P John B Rose, being governors of The Ian Potter Foundation, are associated with substantial shareholders. These directors bring significant and relevant experience to the Board. However, in that the Chairman of the Board is not independent and there is not a majority of independent directors, the Company departs from the Australian Securities Exchange Corporate Governance Council's Recommendations. A lead independent director is not considered necessary given the small size of the Board. Appointed directors must stand for election at the next Annual General Meeting. One third of directors stand for re-election at each Annual General Meeting. There is no set retirement age or term for directors. Extensive experience in the investment markets is valued. Directors are not required to own shares in the Company. Directors have agreed not to enter into margin loans over their shareholdings in the Company.

3. Operation

The Board usually meets eleven times each year and consults on investment matters between meetings. The Board has day-to-day responsibility for management of the investment portfolio. Transaction levels are low as the portfolio is held for the long term. The Board reviews financial statements, forecasts, the investment portfolio, the net asset backing per share, and compliance reports monthly. The Company Secretary is responsible for either providing the information or co-ordinating it from outside service providers.

4. Delegation

The duties and responsibilities of the Company Secretary, the Company's only employee, are set out in a letter of engagement which the Board approves. The Board also approves letters of engagement for the externally provided accounting, tax, custody and audit services. Share registry services are purchased on commercial terms.

5. Directors' Terms of Appointment, Remuneration and Performance

Directors' fees are reviewed annually by the Nomination and Remuneration Committee in the light of the Company's activity, changing responsibilities and in comparison to fee levels of a peer group of companies. Independent remuneration advice may be sought. The maximum total of directors' fees is set by the shareholders in general meeting. Details of directors' remuneration are set out in the Remuneration Report in the Annual Report.

Each director appointed before October 2006 entered into a Retirement Agreement at that time to convert accrued retirement entitlements into shares in the Company to be held until retirement in the Non-Executive Directors 2006 Accrued Entitlements Share Plan, as approved by shareholders.

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance.

The duties of directors are as set out in the Corporations Law and in this statement. In addition to board meetings directors are expected to attend committee meetings where applicable, for no additional fee. They are expected to make a pro-active contribution to the management of the Company's investment portfolio from their reading, research, and information collected outside of board meetings.

After prior discussion with the Chairman, directors are entitled to seek independent advice at the expense of the Company, which advice will then be made available to all other directors. Directors are entitled to unlimited access to the Company's records.

The Board reviews its performance annually by discussion and by individual communication with the Chairman, and by reference to generally accepted Board performance standards. The Board also conducts an annual review of the performance of the Board Committees, the Company Secretary, and outside service providers.

6. Board Committees

The Board has a Nomination and Remuneration Committee comprising all directors and an Audit Committee comprising all directors except the Chairman. The Audit Committee meets at least twice and the Nomination and Remuneration Committee at least once per annum. The Charter of each committee is reviewed by the Board annually. The Audit Committee Charter includes inter-alia, appointment of the auditor, assessing their independence, managing the audit relationship, and overseeing risk management. The external audit partner rotates every 5 years.

The Audit Committee has an independent Chairman and a majority of independent directors. All members are non-executive. It is considered to have sufficient relevant expertise and to comply with the Australian Securities Exchange Corporate Governance Council's Recommendations.

The Nomination and Remuneration Committee considers and makes recommendations to the Board regarding Board composition and remuneration of the directors and the Company Secretary. The Company Secretary's remuneration is paid on a fee for services basis and is disclosed in the Remuneration Report in the Annual Report. No additional fees are paid to members of the Board committees.

Committee members' qualifications and attendance at meetings are set out in the Directors' Report in the Annual Report.

7. Disclosure Procedures and Share Trading

The Company has established procedures to ensure compliance with the Australian Securities Exchange listing rule disclosure requirements including monthly disclosure of the Company's net tangible asset backing per share. Directors and the Company Secretary are prohibited from dealing in the Company's securities (other than to participate in the Dividend Reinvestment Plan or any Share Purchase Plan or rights issue) from 1 January to the day after the announcement of the Company's half year results and interim dividend, and from 1 July to the day after the announcement of the Company's financial year results and final dividend.

8. Shareholder Communication

The Company communicates with shareholders through:

- The annual report
- The half year report
- The website, including email contact.
- Telephone availability of the Company Secretary at the Company's office.
- Annual General Meeting including Chairman's address and question time.
- Mailing of Chairman's Address to all shareholders and posting to website.

The external auditor is to be available for questioning at the Annual General Meeting.

9. Risk Management

The Audit Committee reviews the internal control system and the management of risk half yearly after receiving reports from the Company Secretary on these matters, and makes appropriate recommendations to the board.

The Board receives a letter half yearly from the Company's external accountants regarding their procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

Based on his review of the internal control systems, management of risk, the financial statements and the letter from the Company's external accountants, the Company Secretary provides half yearly the declarations required by Section 295A of the Corporations Act and confirms that in his opinion the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view.

Details of the Company's financial risk management are set out in the notes to the financial statements in the Annual Report.

10. Ethical Conduct

The Company has no executives or executive directors other than the Company Secretary. Each director and the Company Secretary is expected to adopt high ethical standards in acting for the Company and in the interests of the shareholders. Directors are required to disclose potential conflicts of interest and to refrain from involvement in Board decisions, or leave the room, during discussion of the conflicted matter.

Directors' Report

The directors present their report together with the financial report of Australian United Investment Company Limited for the year ended 30 June 2011 and the auditors' report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Charles Goode AC, B.Com. (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon).
Chairman, Appointed April 1990
Age 72

Mr Goode is the Chairman of the Boards of Diversified United Investment Limited (since 1990), The Ian Potter Foundation Limited (governor since 1987), Grosvenor Australia Properties Pty Limited (since 2008) and Flagstaff Partners (since 2010).

Formerly Mr Goode was a director of Australia and New Zealand Banking Group Limited (1991 – 2010, Chairman 1996 – 2010) and Woodside Petroleum Limited (1988 – 2007, Chairman 1999 – 2007).

John Rose AO, AO, B.Com (NZ), DipEc (Camb), PhD(Melb). Hon D.Bus (Melb).
Non-executive Director, Appointed April 2000
Age 75

Mr Rose is a governor of The Ian Potter Foundation Limited (since 2000). Formerly he was the Sidney Myer Professor of Commerce and Business Administration of the University of Melbourne, a Director of The Melbourne Business School, and a director of Woodside Petroleum Limited (1990 - 2005).

Peter Wetherall B.E. Hons (Qld), B.A. Hons (Oxon)
Non-executive Director, Appointed November 2001
Age 55

Mr Wetherall has 30 years experience in the Australian share market as a stockbroker and funds manager. He is the founder and Managing Director of Wallara Asset Management Pty Ltd (since 1995). He is Chairman of the Company's Audit Committee.

James Craig B.Ec/LLb (Adel), LLM (Melb)
Non-executive Director, Appointed 15 October 2009
Age 46

Mr Craig is chairman of Macquarie Capital Advisers, Australia. He is a Director of Murdoch Childrens Research Institute and Trinity College (University of Melbourne). He also is a Director of a number of private companies, including Australian Stem Cell HealthCare Pty Ltd.

From 2003 to 2007 he was CEO of Macquarie Capital and Chairman of Macquarie Bank Ltd in Europe. He was founding CEO of Macquarie European Infrastructure Funds (MEIF) and then Chairman of the MEIF Investment Committee. From 1998 to 2002, he was Head of Macquarie Bank's global natural resources advisory business.

Graeme Moir B.Com (Univ. of NZ), ACA (NZ), ACIS.
Non-executive Director, Appointed March 1976, Retired 14 October 2010
Age 79

Mr Moir has had 49 years experience in the share investment field. He is the principal of Moir's Investment Service Pty. Ltd. (since 1965), is a director of Graeme Moir and Associates Pty. Ltd. (since 1965) and was a director of Diversified United Investment Limited (1991-2010).

Ronald Dewhurst
Non-executive Director, Appointed June 2005, Retired 17 March 2011
Age 59

Mr Dewhurst has over 32 years domestic and international experience in investment and financial services management. He was a director and Chief Executive Officer of IOOF Holdings Ltd from 2004 to 2007 and is currently Global Head of Investment Managers for Legg Mason Inc., a US based global asset manager. He is director of Breast Cancer Network of Australia (since 2003), National Gallery of Victoria (since 2004) and Pride Capital Partners LLC (since 2002).

Formerly he was a director of Orchard Petroleum Ltd (2005-2007) and Acctrak21 International Limited (2003-2009).

Company Secretary

Andrew Hancock FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)
Company Secretary, Appointed 11 October 1995
Age 59

Mr Hancock is also the Company Secretary of Diversified United Investment Ltd (since 1991), has served as Chairman and is currently Secretary of the Australian Listed Investment Companies Association and is Chairman or a director of a number of private investment companies.

Principal Activity of the Company

The principal activity of the Company is that of an investment company which seeks, through a portfolio of securities predominantly comprising shares of companies listed on the ASX, to provide income and capital appreciation over the longer term.

As at 30 June 2011 the Company's portfolio had a market value (including cash and receivables) of \$859,753,165 (2010: \$774,502,860). The net tangible asset backing per share at 30 June 2011 was \$7.24 (2010: \$6.68). This net tangible asset backing calculation is based on investments at market value and is after the tax effect of net realised gains, before estimated tax on net unrealised gains and losses, and before the final dividend. The Company is a long term investor and does not intend disposing of its portfolio. However if estimated tax on unrealised portfolio gains were to be deducted, the net tangible asset backing would be \$6.36 (2010: \$5.92).

No significant change in the nature of the Company's activities has occurred during the financial year.

Results and Review of Operations

The operating profit after income tax before net gains and losses from the investment portfolio was \$32,703,590 compared to \$26,628,080 in the previous year – an increase of 23%. Special dividends received during the 2011 year were \$2,021,500 (2010: nil).

The weighted average number of ordinary shares for the year was 104,247,623 compared to 99,193,947 in previous year, an increase of 5.1%

The basic and diluted earnings per share before net gains and losses from the investment portfolio and special dividends was 29.4 cents compared to 26.8 cents for the previous year.

The total net profit after tax for the year is \$32,703,590 (2010: \$27,378,007). The directors regard the operating result before net gains or losses as the relevant measure of profit.

The Company incurred expenses (excluding finance costs) of \$1,011,676 (2010: \$1,072,798) which is equivalent to 0.12% (2010: 0.15%) of the average market value of the portfolio.

On 4 October 2010 the Company issued 2,426,619 fully paid shares in accordance with a share purchase plan announced on 7 September 2010. The issue raised \$15,575,000 (before costs) at the placement price of \$6.42 per share, which represented a 5% discount to the Net Tangible Asset Backing per share of the Company as at 31 August 2010.

Bank borrowings were \$100 million at the end of the financial year (previous year \$97 million) gearing the investment portfolio by around 12%. Cash on hand, cash deposits and short term receivables were \$22 million or 3% of the investment portfolio at market values (2010: \$12 million, 2%). Annual interest expense was covered 6.1 times by investment revenue.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

	\$
Paid or declared during the year	
A final dividend in respect of the year ended 30 June 2010 of 14 cents per share fully franked paid on 24 September 2010.	14,293,004
An interim dividend in respect of the year ended 30 June 2011 of 12 cents per share fully franked paid on 15 March 2011.	12,563,831
Paid or declared after end of year	
A final dividend in respect of the year ended 30 June 2011 of 14.5 cents per share fully franked payable on 20 September 2011.	15,202,937

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' Meetings		Audit Committee Meetings		Nomination & Remuneration Committee Meetings	
	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible
Charles B Goode	10	11	–	–	1	1
P John Rose	11	11	2	2	1	1
Peter J Wetherall	11	11	2	2	1	1
James S Craig	10	11	1	2	1	1
Graeme E Moir	4	4	1	1	–	–
Ron R Dewhurst	8	8	2	2	–	–

The Audit Committee comprises Messrs Wetherall (Chairman), Rose and Craig. All directors are members of the Nomination and Remuneration Committee.

Directors' Interests

The relevant interest of each director in the issued capital of the Company as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	1	SHARES 2	3
Charles B Goode	66,103	810,896	33,583
P John Rose	67,127	–	10,915
Peter J Wetherall	24,820	–	8,256
James S Craig	–	203,610	–

Note:

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest
3. Held for the Director in accordance with the terms of the Non-Executive Directors 2006 Accrued Entitlements Share Plan

Except as stated above, no director –

- (a) has any relevant interest in shares of the Company or a related body corporate;
- (b) has any relevant interests in debentures of, or interests in a registered scheme made available by, the company or a related body corporate;
- (c) has any rights or options over shares in, debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (d) is a party to a contract, or is entitled to a benefit under a contract, that confers a right to call for or deliver shares in, or debenture of or interests in a registered scheme made available by the Company or a related body corporate.

Remuneration report (audited)

Non-executive Directors' Fees ⁽ⁱ⁾	2011 \$	2010 \$
Charles Goode	146,000	142,000
P John Rose	73,000	71,000
Peter Wetherall	73,000	71,000
James Craig	73,000	50,792
Graeme Moir	21,058	71,000
Ron Dewhurst	52,317	71,000
Total	438,375	476,792

- (i). Directors fees include superannuation contributions elected by Directors to be paid to their nominated superannuation fund.
- (ii). No additional fees are paid to members of the Board Committees.

The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Company Secretary and Directors of the Company, including superannuation entitlements, retirement and termination entitlements, and professional indemnity and liability insurance policies.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and for the broader strategy of increasing the Company's net profit. Directors' fees are fixed and reviewed annually and the maximum total of directors' fees is set by the shareholders in general meeting.

Directors' remuneration is fixed annually taking into account the Company's performance and market conditions. The Company's performance in respect of the current financial year and each of the previous four financial years was:

	2011	2010	2009	2008	2007
Operating Profit (\$ Millions)	32.7	26.6	29.3	30.6	25.7
Dividends paid (cents per share)	26.5	25.5	25.0	25.0	23.0
Share Price 30 June	\$6.49	\$6.56	\$5.88	\$7.54	\$8.62
Management Expense Ratio	0.12%	0.15%	0.13%	0.10%	0.10%
Net Asset Backing Per Share 30 June	\$7.24	\$6.68	\$6.02	\$7.95	\$9.35
S&P/ASX 300 Index 30 June	4,608	4,293	3,949	5,219	6,297

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance. Amounts disclosed for directors' remuneration exclude insurance premiums of \$54,258 paid by the Company in respect of Directors' and Officers' liability insurance as the contracts do not specify premiums paid in respect of individual directors and officers. Refer to Note 15 of the financial statements for information relating to the insurance.

The Company Secretary, Mr Andrew J Hancock, received \$73,000 (2010: \$71,000) for services provided to the Company.

Non-audit services

During the year KPMG, the Company's auditor, has provided taxation services in addition to their statutory duties. They received fees of \$7,425 for these services.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review other than the value of the investment portfolio fluctuated broadly in line with market movements.

Environmental Regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Events Subsequent to Balance Date

The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the disruption in global financial markets. Apart from this, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Likely Developments

The directors do not anticipate any particular developments in the operations of the Company which will affect the results of future financial years other than the value of the investment portfolio is expected to fluctuate broadly in line with market movements.

Indemnification

Details of directors' indemnification are set out in Note 15 to the financial statements.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the year ended 30 June 2011.

Signed in accordance with a resolution of the Directors, for and on behalf of the board.



Charles Goode
Director
Melbourne, 12 August 2011

Lead Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian United Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

msomerville

Michelle Somerville
Partner

Melbourne

12 August 2011

Income Statement for the Year Ended 30 June 2011

	Note	2011 \$	2010 \$
Revenue from investment portfolio	2	39,992,934	32,535,378
Administration and other expenses		(1,011,676)	(1,072,798)
Finance expenses	2	(6,554,515)	(5,180,046)
Operating profit before income tax expense and net gains on investment portfolio		32,426,743	26,282,534
Income tax benefit ¹		276,847	345,546
Net operating profit before net gains on investment portfolio		32,703,590	26,628,080
Net realised gains/(losses) on investment portfolio ²		–	1,071,326
Income tax expense thereon ¹		–	(321,399)
		–	749,927
Profit for the year		32,703,590	27,378,007
¹ Total income tax benefit	4(a)	276,847	24,147
² Up to date of adoption of AASB 9 on 7 December 2009			
Basic and diluted earnings per share (cents)	5	31.4	27.6
Basic earnings per share before net gains and losses on investment portfolio (cents)	5	31.4	26.8
Basic earnings per share before special dividends and net gains and losses on investment portfolio (cents)	5	29.4	26.8

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 19 to 31.

Statement of Comprehensive Income for the Year Ended 30 June 2011

	2011	2010
	\$	\$
Profit for the Year	32,703,590	27,378,007
Other Comprehensive Income		
Revaluation of investment portfolio for the year	57,409,476	62,019,987
Provision for tax expense on revaluation of investment portfolio for the year	(17,998,251)	(19,109,726)
Net realised gains on investments transferred to the income statement from the asset revaluation reserve ²	–	(749,927)
Other comprehensive income net of income tax	39,411,225	42,160,334
Total comprehensive income¹	72,114,815	69,538,341

¹ This is the Company's total net return for the year, which includes the net operating profit plus the net realised and unrealised gains and losses on the Company's investment portfolio

² Up to date of adoption AASB 9 on 7 December 2009

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 19 to 31.

Balance Sheet as at 30 June 2011

	Note	2011 \$	2010 \$
Assets			
Cash assets	16	16,803,309	7,260,830
Receivables	7	5,664,405	4,979,230
Other	9	6,312	51,219
Current Tax	4(a)	–	137,906
Total Current Assets		22,474,026	12,429,185
Investment portfolio	8, 23	837,266,750	762,060,330
Other	9	12,389	13,345
Total Non-Current Assets		837,279,139	762,073,675
Total Assets		859,753,165	774,502,860
Liabilities			
Payables	10	1,868,570	223,001
Borrowings – interest bearing	11	–	16,740,136
Total Current Liabilities		1,868,570	16,963,137
Borrowings – interest bearing	11	98,569,791	78,837,209
Deferred tax liability	4(b)	92,488,358	74,766,957
Total Non-Current Liabilities		191,058,149	153,604,166
Total Liabilities		192,926,719	170,567,303
Net Assets		666,826,446	603,935,557
Equity			
Issued capital	13(a)	315,025,519	297,392,610
Reserves		351,800,927	306,542,947
Total Equity		666,826,446	603,935,557

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 19 to 31.

Statement of Changes in Equity for the Year Ended 30 June 2011

	Issued Capital \$	Revaluation Reserve \$	Realisation Reserve \$	Impairment Reserve \$	Retained Earnings \$	Total \$
Prior Period:						
As at 1 July 2009 (As Reported)	263,936,920	145,412,350	39,346,034	(7,786,753)	84,468,968	525,377,519
Adoption of AASB 9 (Refer Note 1b)	–	(7,279,960)	–	7,279,960	–	–
As at 1 July 2009 (Restated)	263,936,920	138,132,390	39,346,034	(506,793)	84,468,968	525,377,519
Comprehensive Income						
Revaluation of investment portfolio	–	62,019,987	–	–	–	62,019,987
Tax expense on revaluation	–	(19,109,726)	–	–	–	(19,109,726)
Net realised gains and losses on investment portfolio	–	(4,482,009)	3,410,683 ¹	–	1,071,326 ²	–
Income tax on net gains and losses	–	1,344,602	(1,023,203) ¹	–	(321,399) ²	–
Net operating profit before net gains/(losses) on investment portfolio	–	–	–	–	26,628,080	26,628,080
Realised losses transferred after tax	–	–	243,134	506,793 ³	(749,927)	–
	–	39,772,854	2,630,614	506,793	26,628,080	69,538,341
Transactions with Shareholders						
Dividend reinvestment plan	12,861,806	–	–	–	–	12,861,806
Dividends paid	–	–	(973,599) ⁴	–	(23,462,394)	(24,435,993)
Share Purchase Plan	20,593,884	–	–	–	–	20,593,884
	33,455,690	–	(973,599)	–	(23,462,394)	9,019,697
As at 30 June 2010	297,392,610	177,905,244	41,003,049	–	87,634,654	603,935,557
Current Period						
As at 1 July 2010	297,392,610	177,905,244	41,003,049	–	87,634,654	603,935,557
Comprehensive Income						
Revaluation of investment portfolio	–	57,409,476	–	–	–	57,409,476
Tax expense on revaluation	–	(17,998,251)	–	–	–	(17,998,251)
Net realised gains and losses on investment portfolio	–	(2,699,584)	2,699,584	–	–	–
Income tax on net gains and losses	–	1,083,332	(1,083,332)	–	–	–
Net operating profit before net gains/(losses) on investment portfolio	–	–	–	–	32,703,590	32,703,590
	–	37,794,973	1,616,252	–	32,703,590	72,114,815
Transactions with Shareholders						
Dividend reinvestment plan	2,110,494	–	–	–	–	2,110,494
Dividends paid	–	–	–	–	(26,856,835)	(26,856,835)
Share placement (net of costs)	15,522,415	–	–	–	–	15,522,415
	17,632,909	–	–	–	(26,856,835)	(9,223,926)
As at 30 June 2011	315,025,519	215,700,217	42,619,301	–	93,481,409	666,826,446

(1) Net realised gains/(losses) after 7 December 2009 and tax thereon transferred directly to realisation reserve

(2) Net realised gains/(losses) before 7 December 2009 and tax thereon

(3) Impairment realised on investments sold in the period prior to 7 December 2009 and transferred to realisation reserve

(4) LIC Dividend

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 19 to 31

Statement of Cash Flows for the Year Ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Interest received		1,019,687	717,857
Dividends and trust distributions received		36,057,334	30,032,402
Option premium income received		237,913	698,270
Other income received		–	56,250
Finance costs paid		(6,562,069)	(5,616,629)
Administration and other expenses paid		(1,071,269)	(1,107,026)
Income taxes paid		137,906	(564,870)
Net cash flow from operating activities	16	29,819,502	24,216,254
Cash flows from investing activities			
Proceeds from sale of investments		33,133,961	38,831,160
Purchases of investments		(47,187,058)	(100,073,611)
Net cash flow used in investing activities		(14,053,097)	(62,242,451)
Cash flows from financing activities			
Dividends paid		(24,746,341)	(11,574,187)
Proceeds from borrowings		3,000,000	14,000,000
Proceeds from share purchase plan net of costs		15,522,415	20,593,884
Net cash flow from/(used in) financing activities		(6,223,926)	23,019,697
Net increase/(decrease) in cash held		9,542,479	(15,006,500)
Cash and cash equivalents at 1 July		7,260,830	22,267,330
Cash and cash equivalents at 30 June	16	16,803,309	7,260,830

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 19 to 31

1. Statement of significant accounting policies

Australian United Investment Company Limited (the 'Company') is a company domiciled in Australia.

The financial report was authorised for issue by the directors on 12 August 2011.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial report is presented in Australian dollars. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company has not applied any Australian Accounting Standards or UIG Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2011 ("the inoperative standards") with the exception of AASB 9: Financial Instruments which was adopted on 7 December 2009 and disclosed in the 2010 Annual Financial Report.

The impact of other inoperative standards has been assessed and the impact has been identified as not being material. The Company only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

The financial report is prepared on a historical cost basis except that financial instruments are stated at their fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses

(c) Investments

The Company is a long term investor. Under IFRS, investments are classified as fair value through other comprehensive income. After initial recognition at fair value (being cost), investments are measured at fair value.

Unrealised gains or losses on investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 139. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

Interest bearing investments are recognised at fair value and then measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the income statement over the period of the investment on an effective interest basis.

(d) Revenue from investment portfolio

The activity of the Company is that of an investment company, returns being in the form of dividends, interest, trust income, option premiums and sub-underwriting income. Dividend income is recognised in the income statement at ex-dividend date and all other income is recognised on an accruals basis.

1. Statement of significant accounting policies (cont.)

(e) Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the company tax rate adjusted by changes in deferred tax assets and liabilities which arise from items being brought to account in different periods for income tax and accounting purposes.

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as a deferred tax liability. Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes and offset against any capital losses carried forward. The associated deferred tax liability is similarly adjusted and transferred to current tax payable.

When Capital Gains Tax rollover relief is elected on the disposal of securities, tax is still calculated on gains made (even though the income tax liability has been deferred until subsequent disposal of the replacement securities) and recognised in income tax expense for accounting purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

(g) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2. Revenue and Expenses

	2011 \$	2010 \$
(a) Revenue		
Dividends received or due and receivable	36,907,054	29,280,214
Interest received or due and receivable	1,019,687	677,706
Trust distributions received or due and receivable	1,828,280	1,879,188
Option premium income	237,913	698,270
	39,992,934	32,535,378
(b) Expenses		
<i>Finance expenses</i>		
Interest and borrowing expenses	6,554,515	5,180,046

3. Auditor's Remuneration

	2011 \$	2010 \$
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	40,458	43,758
- Tax related services	7,425	9,350

4. Taxation

	2011 \$	2010 \$
(a) Income Tax Expense		
(i) Recognised in the income statement		
Current tax expense/(benefit)		
Current year	–	137,906
Current year tax paid	–	(137,906)
Adjustments for prior years	20,538	108,244
	20,538	108,244
Deferred Tax Expense		
Tax benefit of capital losses carried forward	–	(104,202)
Tax benefit of excess imputation credits carried forward	237,890	242,133
Impairment losses now realised	–	(217,198)
Temporary differences	18,419	(4,830)
	256,309	(84,097)
Total income tax benefit in income statement	276,847	24,147
(ii) Reconciliation between tax expense and pre-tax net profit		
Prima facie tax expense calculated at 30% on the profit for the year	(9,728,023)	(8,206,158)
Increase in tax expense due to:		
Franking credits/foreign tax credit gross-up on dividends received	(3,841,446)	(3,220,159)
Decrease in tax expense due to:		
Sundry items	842,536	331,022
Tax Deferred revenue received	178,422	277,336
Franking credits/foreign tax credit on dividends received	12,804,820	10,733,862
Tax expense/(benefit) on operating profit	256,309	(84,097)
Under/(over) provided in prior years	20,538	108,244
Income tax (benefit)/expense attributable to profit for the year	276,847	24,147
(iii) Deferred tax recognised directly in equity		
Increase/(decrease) in provision for tax on unrealised gains on investment portfolio	17,998,251	19,109,726

4. Taxation (cont.)

	2011 \$	2010 \$
(b) Deferred Tax Assets and Liabilities		
Recognised deferred tax assets and liabilities		
		Liabilities
Revaluation reserve – Provision for tax on unrealised gains on investment portfolio	(95,792,205)	(78,352,442)
Other	(56,610)	(75,030)
Tax benefit of capital losses carried forward	2,859,896	3,418,382
Tax benefit of excess franking credits carried forward	500,561	242,133
Net tax liabilities	(92,488,358)	(74,766,957)

5. Earnings Per Share

	2011 Cents	2010 Cents
Basic earnings per share	31.4	27.6
Basic earnings per share before net gains and losses on investment portfolio	31.4	26.8
Basic earnings per share before special dividends and net gains and losses on investment portfolio	29.4	26.8

	2011 \$	2010 \$
Profit reconciliation used in the calculation of earnings per share		
Profit for the year	32,703,590	27,378,007
Net realised and unrealised (gains)/losses on investment portfolio	–	(749,927)
Net profit before net realised and unrealised losses and gains on investment portfolio	32,703,590	26,628,080
Special dividends	(2,021,500)	–
Net profit before net realised and unrealised losses and gains on investment portfolio and special dividends	30,682,090	26,628,080

Earnings per share for the 2011 year are calculated on a weighted average adjusted number of shares.

Weighted average number of ordinary shares

Issued ordinary shares at 1 July	102,283,567	97,580,191
Effect of placement shares issued in April 2010	–	645,513
Effect of dividend reinvestment plan – final dividend	131,381	662,900
Effect of purchase plan shares issued in October 2010	1,788,385	–
Effect of dividend reinvestment plan – interim dividend	44,290	305,343
Weighted average number of ordinary shares for the year	104,247,623	99,193,947

(1) Adjusted for bonus element resulting from the share purchase plan on 4 October 2010

6. Dividends

	2011 \$	2010 \$
Dividends recognised in the current year by the Company are:		
(i) 2010 final dividend of 14 cents per share (2010: 13.5 cents) franked paid 24 September 2010	14,293,004	13,140,944
(ii) 2011 interim dividend of 12 cents per share (2010: 11.5 cents) fully franked paid 15 March 2011	12,563,831	11,295,049
	26,856,835	24,435,993

Since 30 June 2011, the directors have declared the following dividend payable on 20 September 2011 :

- Final dividend of 14.5 cents per share fully franked (2010: 14 cents)	15,202,937	14,293,004
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The final dividend will not contain a Listed Investment Company (LIC) capital gain dividend (2010: nil).

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2011.

Dividend Franking Account:

The balance of the Franking Account at 30 June 2011 is \$32,320,402 (2010: \$30,641,735) after adjusting for:

- (a) franking credits that will arise from the current income tax liability;
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end;
- (c) franking credits that the entity may be prevented from distributing in subsequent years (none at 30 June 2011).

After allowing for the final 2011 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$25,804,858 (2010: \$24,515,822).

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

LIC Capital Gain Account:

The balance of the LIC Capital Gain Account at 30 June 2011 was \$372,101 (2010: \$372,101). When distributed, LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the relevant dividend statement.

7. Receivables

	2011 \$	2010 \$
Current		
Dividends Receivable	5,418,000	4,698,000
Trust Distributions Receivable	238,000	270,000
Other	8,405	11,230
	5,664,405	4,979,230

8. Investments

	2011 \$	2010 \$
Non-Current		
Investments quoted on prescribed stock exchanges (at fair value)	837,266,750	762,060,330

9. Other Assets

Current

Prepayments	6,312	51,219
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Non-Current

Leasehold Improvements	12,389	13,345
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10. Payables

Current

Trade Creditors	1,868,570	223,001
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11. Interest Bearing Liabilities

Current

Bills payable – Secured	–	16,740,136
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Non-Current

Bills payable – Secured	98,569,791	78,837,209
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The face value of the drawn facility is \$100 million (2010: \$97 million). The amounts disclosed above are at amortised cost. For more information regarding the Company's exposure to interest risk and liquidity risk, see Notes 18 and 19

12. Financing Arrangements

	2011 \$	2010 \$
The Company has access to the following lines of credit:		
Total facility available		
Commercial Bill Facility – Secured	100,000,000	103,000,000
Facilities utilised at balance date		
Commercial Bill Facility – Secured	100,000,000	97,000,000

13. Capital and Reserves

	2011 \$	2010 \$
(a) Issued Capital		
Issued and paid-up share capital		
104,847,838 (2010: 102,098,563) ordinary fully paid shares	315,025,519	297,392,610
Movements in issued capital:		
Balance at beginning of the financial year	297,392,610	263,936,920
Shares issued		
- Capital raising (net of costs) (i)	–	20,593,884
- Dividend re-investment plan (ii)	2,110,494	12,861,806
- Share purchase plan (net of costs) (iii)	15,522,415	–
	315,025,519	297,392,610

- (i) On 8 April 2010, the Company issued 2,833,565 fully paid ordinary shares in accordance with a placement announced on 29 March 2010. The issue raised \$20,628,353 (before costs) at the placement price of \$7.28 per share.
- (ii) In respect of the final dividend paid in September 2010, 171,569 ordinary shares were issued at \$6.445 each and in respect of the interim dividend paid in March 2011, 151,087 ordinary shares were issued at \$6.65 each.
- (iii) On 4 October 2010, the Company issued 2,426,619 fully paid ordinary shares in accordance with a share purchase plan announced on 7 September 2010. The issue raised \$15,575,000 (before costs) at the purchase plan price of \$6.42 per share.

(b) Nature and Purpose of Reserves

Revaluation Reserve

Increments or decrements on the revaluation of long term investments after provision for deferred tax are recorded in this reserve. When an investment has been sold or de-recognised, realised gains or losses (after tax) are transferred from the revaluation reserve to the realisation reserve.

Realisation Reserve

The realisation reserve records realised gains and losses (after tax) from sale of investments which are transferred from the revaluation reserve.

14. Directors' Remuneration

The total director's remuneration for the year is \$438,375 (2010: \$476,792). Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report.

15. Related Parties

Directors and director related entities

The names of each person holding the position of director of Australian United Investment Company Limited during the financial year are Messrs C B Goode (Chairman), P J Wetherall, P J B Rose, J S Craig, G E Moir (Retired 14 October 2010) and R R Dewhurst (Retired 17 March 2011).

The Company has indemnified each current director and the company secretary against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, insuring them against liabilities, costs and expenses arising out of conduct which does not involve a willful breach of duty. This insurance premium covers the period 18 June 2011 to 18 June 2012.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no other material contracts involving directors' interests existing at year end.

Directors' Holdings of Shares

The relevant interests of directors and their director related entities in shares of the Company as at year end are set out below:

Directors	Held at 01/07/10	Purchases	Sales	Held at 30/06/11
Charles B Goode	869,276	41,306	–	910,582
P John Rose	75,271	2,771	–	78,042
Peter J Wetherall	19,724	13,352	–	33,076
James S Craig	161,224	42,386	–	203,610

Directors' Transactions in Shares

The movements in directors' holdings of ordinary shares resulted from the issue of shares under the Company's dividend reinvestment plan and on-market purchases which were made on the same terms and conditions offered to other shareholders, and/or purchases on the open market.

16. Notes to the Statement of Cash Flows

	2011 \$	2010 \$
Reconciliation of Cash		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Units in Cash Management Trusts and Deposits at call	16,803,309	7,260,830
Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit for the year	32,703,590	27,378,007
Add/(less) net realised capital gains	–	(749,927)
Net cash provided by operating activities before changes in assets and liabilities	32,703,590	26,628,080
Add/(less) changes in assets and liabilities:		
(Increase)/decrease in dividends receivable	(720,000)	(1,087,000)
(Increase)/decrease in interest receivable	–	40,151
(Increase)/decrease in distributions receivable	32,000	(40,000)
(Increase) in other debtors	2,825	53,110
(Increase)/decrease in deferred tax assets	(258,427)	(242,133)
Increase/(decrease) in deferred tax liability	(18,420)	4,830
Increase/(decrease) in current tax	137,906	(673,114)
Increase/(decrease) in accrued expenses	(108,281)	33,475
(Increase)/decrease in prepaid interest and borrowing costs	(7,554)	(436,581)
(Increase)/decrease in other prepayments	44,907	(51,219)
(Increase) in other assets	956	(13,345)
Add/(less) non-cash items:		
Non-cash income	(1,990,000)	–
Net cash provided by operating activities	29,819,502	24,216,254

17. Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term.

The Company's capital will fluctuate in accordance with prevailing market movements, and it may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

18. Financial Risk Management

AASB 7 – Financial Instruments: Disclosures identifies three types of risk associated with financial instruments (i.e. investments, receivables, payables and borrowings).

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk exposure of the Company lies principally in its cash and receivables to the extent of their carrying values and any accrued unpaid interest.

Cash

The company invests in short-term bank backed securities, cash management units with the MF Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA or A.1 credit rating assigned by Standard & Poor's, being a Recognised Rating Agency.

Receivables

Receivables are non-interest bearing and represent dividends, proceeds of sales and distributions yet to be received. The credit risk exposure of the Company in relation to receivables is the carrying amount.

Management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets are over due or considered to be impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Company monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities or liquid securities to meet all its financial obligations as they fall due.

Bank borrowings were \$100 million at the end of the financial year (previous year \$97 million) representing approximately 12% of the asset value of the Company. The Company has interest bearing commercial bill facilities in place with the National Australia Bank and Australia and New Zealand Banking Group which include both fixed and floating rate bill components. These facilities expire on various intervals through to 31 March 2016, unless these are renewed. Annual interest expense during the year was covered 6.1 times by investment income.

The major cash inflows for the Company include dividends, distributions and sales proceeds received. The major cash outflows are the purchase of securities and dividends paid to shareholders, both of which are able to be managed by the Company. The Company's investments are quoted on a prescribed stock exchange and are able to be realised if required.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is not free of market risk as it invests its capital in securities whose market prices can fluctuate.

Based on a tax rate of 30%, a general movement in market prices of 5% and 10% would lead to a change in the Company's equity of \$29,304,336 (or 4%) and \$58,608,673 (or 9%) respectively, after tax.

Notes to the Financial Statements for the Year Ended 30 June 2011

Market risk is managed by ensuring that the Company's investment portfolio is not over exposed to one company or one particular sector. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Board frequently.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 19, which is managed through conservative levels of gearing, fixing the interest rate on a portion of the debt and ensuring that there is appropriate interest cover at all times.

All of the company's investments are quoted in Australian dollars therefore avoiding any direct exposure to currency risk. Nevertheless, a number of the underlying company's businesses may have currency risk exposures.

19. Financial Instruments Disclosure

Interest Rate Risk

The Company's exposure to interest rate risk as at 30 June 2011 and the effective weighted average interest rate for classes of financial assets which bear interest is set out below.

	Note	Floating Interest Rate \$	Total \$
Financial Assets – 2011			
Cash	16	16,803,309	16,803,309
Weighted Average Interest Rate		5.12%	
Financial Assets – 2010			
Cash	16	7,260,830	7,260,830
Weighted Average Interest Rate		3.82%	

The Company has secured borrowing facilities in place with the National Australia Bank Ltd and Australia and New Zealand Banking Group Ltd totalling \$100,000,000 (2010: \$103,000,000) as follows:

National Australia Bank Ltd

Amount	Maturity	Interest Rate*
\$10,000,000	2 July 2012	Fixed 6.42%
\$10,000,000	2 July 2012	Floating 6.5%
\$10,000,000	31 March 2013	Fixed 7.05%
\$10,000,000	31 March 2013	Floating 6.5%
\$10,000,000	31 March 2014	Fixed 7.45%
\$10,000,000	31 March 2014	Floating 6.5%
\$20,000,000	31 March 2015	Floating 6.5%

Australia and New Zealand Banking Group Ltd

Amount	Maturity	Interest Rate*
\$20,000,000	31 March 2016	Fixed 7.31%

* Interest rate includes bank margins and fees.

19. Financial Instruments Disclosure (cont.)

The Company has pledged as collateral for the secured borrowing facilities, the following equity investments:

National Australia Bank Ltd

Equities	No. of Shares	Value at 30 June 2011
		\$
BHP Billiton Ltd	1,000,000	43,800,000
ANZ Bank Ltd	1,750,000	38,500,000
NAB Ltd	1,000,000	25,620,000
Woodside Ltd	1,000,000	41,000,000
Total		148,920,000

Australia and New Zealand Banking Group Ltd

Equities	No. of Shares	Value at 30 June 2011
		\$
Commonwealth Bank Ltd	400,000	20,920,000
Westpac Ltd	500,000	11,130,000
Woolworths Ltd	400,000	11,100,000
Telstra Ltd	3,000,000	8,670,000
Total		51,820,000

Net Fair Values of Financial Assets and Liabilities

Valuation Approach

Net fair values of financial assets and liabilities are determined by the Company on the following basis:

Recognised Financial Instruments

Listed securities included in "Investments" are readily traded on organised markets in a standardised form. The net fair value of listed securities is determined by valuing them at the last quoted sale price as at balance date. In accordance with Australian Accounting Standards, this is considered "level 1" under the fair value measurement hierarchy, which is defined as quoted prices (unadjusted) in active markets for identical assets or liabilities. No adjustment for transaction costs necessary to realise the assets has been included as these are deemed to be immaterial. The net fair value of investments is set out in notes 8 and 23.

For all other financial assets and liabilities, the carrying amount closely approximates its fair value.

20. Contingent Liabilities and Capital Commitments

There were no contingent liabilities or capital commitments as at 30 June 2011.

21. Segment Reporting

The Company operates as an investment company in Australia.

22. Events Subsequent to Balance Date

The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the disruption in global financial markets. Apart from this, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial periods.

23. Holdings of Securities as at 30 June 2011

The following is a list of the Company's top 25 investments as at 30 June 2011, which represents 90% of the total investment portfolio (2010: 92%). All investments are valued at fair value through Other Comprehensive Income.

2011		2010	
Company	Market Value \$	Company	Market Value \$
1 BHP Billiton Ltd	91,980,000	BHP Billiton Ltd	79,065,000
2 Rio Tinto Ltd	75,935,850	Rio Tinto Ltd	60,993,900
3 ANZ Banking Group Ltd	58,300,000	ANZ Banking Group Ltd	57,266,500
4 Commonwealth Bank Of Australia Ltd	52,300,000	Woodside Petroleum Ltd	50,208,000
5 Woodside Petroleum Ltd	51,250,000	Westpac Banking Corporation Ltd	46,706,000
6 National Australia Bank Ltd	51,240,000	National Australia Bank Ltd	46,560,000
7 Westpac Banking Corporation Ltd	48,972,000	Wesfarmers Ltd	41,556,500
8 Wesfarmers Ltd	46,222,500	Commonwealth Bank of Australia Ltd	41,344,000
9 Woolworths Ltd	33,300,000	Diversified United Investment Ltd	34,680,000
10 Diversified United Investment Ltd	32,520,000	Woolworth Ltd	32,424,000
11 Orica Ltd	26,940,000	QBE Insurance Group Ltd	25,480,000
12 QBE Insurance Group Ltd	24,150,000	Orica Ltd	25,200,000
13 Alumina Ltd	20,445,900	Telstra Corporation Ltd	19,500,000
14 Origin Energy Ltd	18,948,000	AXA Asia Pacific Holdings Ltd	16,410,000
15 AMP Ltd	15,648,000	Origin Energy Ltd	14,940,000
16 AGL Energy Ltd	14,650,000	Alumina Ltd	14,777,250
17 Santos Ltd	13,540,000	AGL Energy Ltd	14,700,000
18 Brambles Ltd	12,996,000	Westfield Group	14,616,000
19 Westfield Group	10,392,000	Santos Ltd	12,600,000
20 CSL Ltd	9,918,000	Tabcorp Holdings Ltd	10,128,000
21 SP AusNet	9,450,000	Brambles Ltd	9,828,000
22 Mystate Ltd	9,126,000	CSL Ltd	9,774,000
23 Transurban Group	8,891,000	Consolidated Media Holdings	9,540,000
24 Perpetual Ltd	8,725,500	Mystate Ltd	8,112,000
25 Telstra Corporation Ltd	8,670,000	Transurban Group	7,208,000
Total Top 25 Investments	754,510,750		703,617,150
Total Investments at Market Value	837,266,750		762,060,330

Directors' Declaration

1. In the opinion of the directors of Australian United Investment Company Limited ("the Company"):
 - (a) The financial statements and notes set out on pages 14 to 31, and the remuneration disclosures that are contained in the Remuneration Report on page 11 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (b) The financial report also complies with International Financial Reporting Standards.
 - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the directors.



Charles Goode
Director

Melbourne 12th August 2011



Independent auditor's report to the members of Australian United Investment Company Limited

Report on the financial report

We have audited the accompanying financial report of Australian United Investment Company Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 23 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view of which is consistent with our understanding of the Company's financial position and performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Australian United Investment Company Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included on page 11 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian United Investment Company Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

msomerville

Michelle Somerville
Partner

Melbourne

12 August 2011

Distribution of shareholders as at 31 July 2011.

Category Holders	Ordinary Shares	No of Holders	%
1 – 1,000	248,142	487	0.24
1,001 – 5,000	4,194,982	1,502	4.00
5,001 – 10,000	5,210,424	721	4.97
10,001 – 100,000	14,893,999	692	14.20
100,001 and over	80,300,291	35	76.59
	104,847,838	3,437	100.00

There were 72 ordinary shareholders holding less than a marketable parcel (80 shares) at 31 July 2011.

Substantial Shareholders

The number of shares held by substantial shareholders and their associates as at 31 July 2011 are set out below:

Substantial Shareholder	No. of Shares
The Ian Potter Foundation Limited and Dundee Trading Pty Ltd	40,150,897
Argo Investments Ltd	19,660,931
Lady Primrose Catherine Potter, Primrose Properties Pty Ltd and Decerna Pty Ltd	7,732,224

Voting Rights

All ordinary shares carry equal voting rights.

Additional Information

Twenty Largest Equity Security Holders

The twenty largest shareholders, listed below as at 31 July 2011, hold 78,462,678 ordinary shares which is 74.83% of the issued capital.

Ordinary Shares

Shareholder Name	No. of Shares	% Held
1. The Ian Potter Foundation Ltd	37,905,276	36.15
2. Argo Investments Ltd	19,660,931	18.75
3. Primrose Properties Pty Ltd	6,416,772	6.12
4. Robin Bernice Potter	5,475,000	5.22
5. Dundee Trading Pty Ltd	2,245,621	2.14
6. The Miller Foundation Ltd	1,600,000	1.53
7. Lady Primrose Catherine Potter	752,977	0.72
8. Daryl Albert Dixon & Katherine Dixon	693,717	0.66
9. Beta Gamma Pty Ltd	658,360	0.63
10. UBS Wealth Management Australia Nominees Pty Ltd	642,935	0.61
11. Decerna Pty Ltd	562,475	0.54
12. Matluc Nominees Pty Ltd	288,443	0.27
13. Pards Pty Ltd	248,001	0.24
14. Duesburys Services Pty Ltd <Carolyn Anne Parker Bowles>	228,973	0.22
15. Equitas Nominees Pty Ltd	203,610	0.19
16. Mrs Sheila Clare Audas Pitt	190,000	0.18
17. The Manly Hotels Pty Ltd	187,500	0.18
18. Dr Ray Dudley Paech (Est. Donald Graham Paech A/c)	180,000	0.17
19. Mythia Pty Ltd	168,337	0.16
20. Miss Margaret Anne Feilman	153,750	0.15
	78,462,678	74.83

Brokerage Paid

The amount of brokerage paid or charged to the Company during the financial year ended 30 June 2011 totalled \$159,499 (2010: \$242,942). None of that brokerage was paid to any stock or sharebroker, or any employee or nominee of any stock or sharebroker, who is an officer of the Company.

List of Investments as at 30 June 2011

Unless otherwise stated, the securities in this list are fully paid ordinary shares or stock units. The industry percentages shown are based on market values of the listed share investments.

	30/6/2011		Units Held	Capital Movements or Portfolio Adjustments	30/6/2010
	Market Value \$	% of Portfolio at Market Value			Units Held
<i>Oil & Gas (7.7%)</i>					
AWE Ltd	1,275,000	0.1	1,000,000	–	1,000,000
Oil Search Ltd	–	–	–	300,000 Sold	300,000
Santos Ltd	13,540,000	1.6	1,000,000	–	1,000,000
Woodside Petroleum Ltd	51,250,000	6.0	1,250,000	50,000 Purchased	1,200,000
<i>Chemicals (3.1%)</i>					
Orica Ltd	26,940,000	3.1	1,000,000	–	1,000,000
<i>Construction Material (0.2%)</i>					
Bluescope Steel Ltd	1,446,000	0.2	1,200,000	–	1,200,000
<i>Metals & Mining (22.4%)</i>					
Alumina Ltd	20,445,900	2.4	9,690,000	–	9,690,000
BHP Billiton Ltd	91,980,000	10.7	2,100,000	–	2,100,000
Newcrest Mining Ltd	3,771,000	0.4	100,000	100,000 Purchased	–
Rio Tinto Ltd	75,935,850	8.9	915,000	–	915,000
<i>Construction & Engineering (1.0%)</i>					
Worley Parsons Ltd	8,472,000	1.0	300,000	–	300,000
<i>Commercial Services Supplies (1.5%)</i>					
Brambles Ltd	12,996,000	1.5	1,800,000	–	1,800,000
<i>Air Freight & Couriers (0.2%)</i>					
Toll Holdings Ltd	1,455,000	0.2	300,000	–	300,000
<i>Road & Rail (0.6%)</i>					
QR National Ltd	5,070,000	0.6	1,500,000	1,500,000 Purchased	–
<i>Transportation Infrastructure (1.0%)</i>					
MAP Group	–	–	–	600,000 Sold	600,000
Transurban Group	8,891,000	1.0	1,700,000	–	1,700,000
<i>Hotels Restaurants & Leisure (2.3%)</i>					
Echo Entertainment Group Ltd	8,220,000	1.0	2,000,000	2,000,000 acquired Tabcorp Scheme	–
Tabcorp Holdings Ltd	6,580,000	0.8	2,000,000	400,000 Purchased	1,600,000
Tatts Group Ltd	5,280,000	0.6	2,200,000	–	2,200,000

List of Investments as at 30 June 2011

Unless otherwise stated, the securities in this list are fully paid ordinary shares or stock units. The industry percentages shown are based on market values of the listed share investments.

	30/6/2011			Capital Movements or Portfolio Adjustments	30/6/2010
	Market Value \$	% of Portfolio at Market Value	Units Held		Units Held
<i>Media (1.8%)</i>					
Amalgamated Holdings Ltd	6,960,000	0.8	1,200,000	–	1,200,000
APN News & Media Ltd	789,000	0.1	600,000	–	600,000
Consolidated Media Holdings Ltd	7,830,000	0.9	3,000,000	–	3,000,000
<i>Retailing (9.3%)</i>					
Wesfarmers Ltd	42,997,500	5.0	1,350,000	–	1,350,000
Wesfarmers Ltd PPS	3,225,000	0.4	100,000	–	100,000
Woolworths Ltd	33,300,000	3.9	1,200,000	–	1,200,000
<i>Beverages (0.0%)</i>					
Foster's Group Ltd	–	–	–	150,000 Sold	150,000
<i>Health Care Providers & Services (2.1%)</i>					
CSL Ltd	9,918,000	1.2	300,000	–	300,000
Primary Health Care Ltd	–	–	–	1,750,000 Sold	1,750,000
Ramsay Health Care Ltd	1,818,000	0.2	100,000	100,000 Purchased	–
Sonic Healthcare Ltd	6,435,000	0.8	500,000	–	500,000
<i>Banks (25.6%)</i>					
Australia & New Zealand Banking Group Ltd	58,300,000	6.8	2,650,000	–	2,650,000
Commonwealth Bank Of Australia Ltd	52,300,000	6.1	1,000,000	150,000 Purchased	850,000
Mystate Ltd	9,126,000	1.1	2,600,000	–	2,600,000
National Australia Bank Ltd	51,240,000	6.0	2,000,000	–	2,000,000
Westpac Banking Corporation	48,972,000	5.7	2,200,000	–	2,200,000
<i>Diversified Financials (6.8%)</i>					
ASX Ltd	3,045,000	0.4	100,000	100,000 Purchased	–
BT Investment Management Ltd	1,250,000	0.1	500,000	500,000 Purchased	–
Diversified United Investment Ltd	32,520,000	3.8	12,000,000	–	12,000,000
Gowing Bros Ltd	4,520,000	0.5	2,000,000	2,000,000 Purchased	–
Perpetual Ltd	8,725,500	1.0	350,000	100,000 Purchased	250,000
The Trust Company Ltd	3,300,000	0.4	600,000	241,000 Purchased	359,000
Washington H Soul Pattinson	5,240,000	0.6	400,000	400,000 Purchased	–
<i>Insurance (4.6%)</i>					
AMP Ltd	15,648,000	1.8	3,200,000	2,190,000 acquired AXA/AMP Scheme 10,000 Purchased	1,000,000
AXA Asia Pacific Holdings Ltd	–	–	–	3,000,000 disposed AXA/AMP Scheme	3,000,000
QBE Insurance Group Ltd	24,150,000	2.8	1,400,000	–	1,400,000

List of Investments as at 30 June 2011

Unless otherwise stated, the securities in this list are fully paid ordinary shares or stock units. The industry percentages shown are based on market values of the listed share investments.

	30/6/2011		Units Held	Capital Movements or Portfolio Adjustments	30/6/2010
	Market Value \$	% of Portfolio at Market Value			Units Held
<i>Diversified Telecommunication Services (1.0%)</i>					
Telstra Corporation Ltd	8,670,000	1.0	3,000,000	3,000,000 Sold	6,000,000
<i>Gas Utilities (5.0%)</i>					
AGL Energy Ltd	14,650,000	1.7	1,000,000	–	1,000,000
Origin Energy Ltd	18,948,000	2.2	1,200,000	200,000 Purchased	1,000,000
SP AusNet	9,450,000	1.1	10,000,000	6,000,000 Purchased	4,000,000
<i>Real Estate (1.2%)</i>					
Westfield Group	10,392,000	1.2	1,200,000		1,200,000
<i>Cash Trust & Other Deposits (1.6%)</i>					
Cash Trust units, Bank deposits and receivables	22,486,415	2.4	22,486,415		2,176,568
	859,753,165	100.0%			



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Australian United Investment Company Limited