

AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 58th ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 11 OCTOBER 2012 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 which excludes net realised investment gains was \$32.6M compared to \$32.7M in the previous year – a decrease of 0.4%.

If special dividends received in both periods are excluded profit was \$32.5M, an increase of 6%. This year a special dividend of \$37,874 after tax was received from Newcrest Mining. Special dividends totalling \$2M were received in the previous year.

The operating profit reflects a slight decrease in dividends and trust distributions received, an increase in option premium and sub-underwriting fees and an increase in net interest paid.

The operating earnings per share excluding net realised gains and excluding special dividends were 31.0 cents, compared to 29.4 cents for the previous year.

The weighted average number of ordinary shares on issue for the year was 105 million as against 104 million in the previous year, an increase of 1%.

Bank borrowings were \$100M at the end of the financial year (previous year \$100M) amounting to around 13% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$13M, or 2% of the investment portfolio at market values (previous year \$22M, or 3%).

Annual interest expense was covered 6.3 times by investment revenue.

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 0.12% last year.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was \$6.26 at 30 June 2012, compared to \$7.24 at 30 June 2011.

The Company's compound annual growth in net asset backing (assuming all dividends were re-invested), and separately in share price, compared to the S&P/ASX 300 Accumulation Index in each of the past one, three, five and ten year periods is as follows:

To 30 June 2012	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	(9.8)	(10.4)	(7.0)
3 Years	5.2	1.5	5.6
5 Years	(4.4)	(5.3)	(4.2)
10 Years	7.4	6.2	6.9

The Company's net asset backing accumulation performance is after tax and expenses and the impact of the Company's gearing for which no allowance is made in the index. The Board is mindful of the Company's relative under-performance over the last year and is continuing to review and adjust the portfolio's composition and weightings carefully.

The final dividend for the year ending 30 June 2012 is 15 cents per share fully franked which, with the interim dividend of 13 cents per share fully franked, makes a total dividend for the year of 28 cents per share fully franked, an increase of 1.5 cents on last year.

The final dividend did not include any Listed Investment Company capital gain dividend.

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AUI's annual fully franked dividend has increased at a compound rate of 7.6% per annum over the past 10 years, comfortably in excess of the Australian inflation rate. Over that 10 year period the dividend has increased every year, except for 2008-09 (the year of the global financial crisis), when it was unchanged. The Board regards long term growth in the Company's dividend as an important investment objective.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 41 companies. The Annual Report provides a list of the shareholdings at 30 June 2012 and 30 June 2011; 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 2012.

The largest investments in terms of market value at balance date were BHP Billiton, ANZ Bank, Commonwealth Bank, Rio Tinto, National Australia Bank, Westpac Bank and Wesfarmers. These seven investments at 30 June 2012 comprised 48% of the portfolio and our twenty-five largest investments comprised 87% of the portfolio.

In the year to 30 June 2012 the portfolio was revalued down by \$106M to a market value of \$744M (2011: revalued up by \$57M to a market value of \$837M), 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; 10% in companies 21 to 50 in size; 6% in companies 51 to 100; and 10% in companies outside the largest 100 companies.

At 30 June 2012 the main sectors of the portfolio were Resources 30%, Banking 28%, Food & Staples Retailing 10% and Diversified Financials 7%. Cash on hand and short term receivables at 30 June 2012 were 2% of the portfolio.

Since the end of the financial year, we have sold our holding in Westfield Group and Sonic Healthcare and reduced our shareholding in Alumina. We have added to our holding in SP AusNet.

At 30 September the composition of our portfolio was broadly 40% in financials being 29% in banks, 7% in diversified financials and 4% in insurance.

There is then broadly 29% in the resource industry comprising 20% in materials and 9% in energy.

There is 10% in retailing comprising Wesfarmers and Woolworths. We have 4% in utility companies, 3% in consumer services and 2% in transportation. There is around 2.5% in each of media and health services. We have a little under 2% in each of Brambles and Telstra and 3% cash.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, and after allowing for the final dividend was \$6.11 at 30 June, 2012 and \$6.66 at 30 September, 2012.

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 2012 was \$5.54 per share and at 30 September 2012 was \$5.96.

Outlook:

We are cautious on the outlook for the share market, but on balance expect it to "climb a wall of worry" caused by the world economic outlook.

The factors in our thinking in framing our outlook scenario are:

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- little or no growth in GDP in Europe as the European countries muddle through their problems of high unemployment, high government debt, difficult social and political issues in addressing the austerity required, and difficult economic and nationalistic issues in holding the Euro community together;
- a slow recovery in the USA with the prospect of an anti-business government and higher taxes;
- a continued very low growth rate in Japan;
- growth in China being at a lower rate than has been the norm over the last three decades, probably moving from 10% p.a. to say 6 – 7% p.a.;
- the negative impact on economic activity of governments seeking to reduce budget deficits by lowering their expenditure and introducing higher taxes;
- the negative impact on economic activity of the need for overall deleveraging (less borrowings). To date we have seen corporations deleveraging but this has been offset by higher government borrowings;
- the limited capacity of governments to respond fiscally to stimulate economies should further adverse events occur;
- the reliance by governments on monetary policy involving both governments and central banks creating huge increases in money supply through deficits and quantitative easing which have lowered interest rates in many countries to under 1%;
- that the current problems will take many years to redress and interest rates are therefore likely to remain low for years;
- that investors are incentivised to move into shares and property which provide higher income than investment grade interest bearing securities and also provide some protection against inflation which may emerge in say five years' time if world economies resume their historical growth rates of the last 30 years.

What you can reasonably expect in these uncertain times from your investment in Australian United Investment Co. Ltd. in the year ahead is that:

- the portfolio will comprise shares in 40 – 55 Australian companies with 80% or more of the funds being held in leading companies in the ASX100;
- the borrowings of the Company to be 10 – 15% of the market value of the portfolio;
- the annual turnover of the portfolio to be 3 – 12% of the market value of the portfolio;
- the payout ratio will be around 90% of the net profits after tax and be fully franked;
- the dividend rate per share will be maintained with the possibility of a modest increase;
- the uncertain conditions make it too difficult to have a confident view as to the change in the market value of the net tangible assets per share.

Of course these expectations would need to change if unforeseen events eventuate or the Board considers it prudent to change their current policies in respect to the management of the investments.

On balance, we expect the share market to be higher at the end of this financial year than it was at the opening of the year.

Charles Goode
Chairman