AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 63RD ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON MONDAY 16TH OCTOBER 2017 AT 9.00 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 $44.1M compared to $42.2M in the previous year – an increase of 4.5%.

If special dividends received in both periods are excluded, profit increased 3.8% to $43.7M. This year special dividends of $435,000 after tax were received from Asciano. In the previous year special dividends and distributions totalled $163,700.

The weighted average number of ordinary shares on issue for the year was 123.6 million as against 120.1 million in the previous year, an increase of 2.9%.

Earnings per share were 35.7 cents, compared to 35.2 cents for the previous year, an increase of 1.4%. Excluding special dividends, earnings per share were 35.3 cents, compared to 35.0 cents for the previous year, an increase of 0.9%.

The final dividend for the year ending 30 June 2017 is 18.5 cents per share fully franked which, with the interim dividend of 15.5 cents per share fully franked, makes a total dividend for the year of 34 cents per share fully franked, steady on last year.

The Company has maintained or increased its dividend paid per share every year since 1994, notwithstanding varying market conditions and several capital raisings.

The Company's operating expenses (including the management fees of the small cap managed funds in which the Company is invested, and excluding borrowing costs) were equivalent to 0.10% of the average market value of the portfolio, steady on the previous year.

Bank borrowings were $130M at the end of the financial year (last year $122M) amounting to around 10.9% of the investment portfolio at market values. Cash on hand, cash on deposit and net short term receivables were $53M, or 4.5% of the investment portfolio at market values (last year $27M, or 2.5%).

Annual interest expense was covered 10.1 times by investment income.

The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $8.39 at 30 June 2017, compared to $7.39 at 30 June 2016, a rise of 13.5%.

The performance of an investment in AUI based on net asset backing per share, and separately in share price, assuming all dividends were re-invested, compared to the S&P/ASX 200 Accumulation Index in each of the past one, three, five and ten year periods is as follows:

To 30 June 2017	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	18.0	18.4	14.1
3 Years	4.9	4.8	6.6
5 Years	11.3	13.0	11.8
10 Years	3.2	3.5	3.6

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. Further the Company's dividends are fully franked, while the level of franking in the whole market is around 70-75%.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's net asset accumulation return for the year to 30 June 2017 was a rise of 20.1% compared to a rise of 15.9% in the S&P/ASX 200 Franking Credit Adjusted Total Return Index.

Continued over

The Company's relative performance for the year was assisted by strong contributions from stocks such as South32, Orica, Challenger, BT Investments, Rio Tinto, Perpetual and Lend Lease, all of which saw price appreciation in excess of 30%. The portfolio also benefitted from being underweight the REIT and Telecommunications sectors and from its modest level of gearing.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 41 companies and the two small cap managed funds. The Annual Report provides a list of the shareholdings at 30 June 2017 and 30 June 2016; 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 2017.

The largest investments in terms of market value at balance date were Commonwealth Bank, ANZ Bank, Westpac Bank, National Australia Bank, Wesfarmers, CSL and Diversified United Investment. These seven investments at 30 June 2017 comprised 42% of the portfolio and our twenty-five largest investments comprised 80% of the portfolio.

At 30 June 2017 the main sectors of the portfolio were Financials and Insurance 41%, Resources 15%, Consumer 12%, Healthcare 11% and Infrastructure and Transport 10%. The Small Cap managed funds were 1.5%. Other investments were 4.5% and cash on hand was 5%.

Turnover of the portfolio this year was slightly higher than usual at 8.5% as it included the Asciano takeover and we undertook some portfolio repositioning.

Since the end of the financial year, we have added to our holding in Challenger Ltd, and to Macquarie Atlas Roads through their rights issue.

At 30 September the composition of our portfolio was broadly 41% in Financials and Insurance, 16% Resources, 12% Consumer, 11% Healthcare and 10% Infrastructure & Transport. The two Small Cap managed funds were 2%. Other investments were 4% and cash on hand was 4%. Borrowings were $130M, or 11% of the portfolio.

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 $8.39 at 30 June, 2017 and $8.44 at 30 September, 2017.

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 2017 was $7.28 per share and at 30 September 2017 was $7.34.

<u>Federal Government Levy on Selected Banks</u>

Your Board is very concerned about the unwarranted and discriminatory tax on the four major banks and Macquarie Bank. Your Company has 28% of the portfolio invested in the four major banks, around index weighting.

To impose a levy on selected companies, in a selected sector, is discriminatory, unfair and a poor policy approach. The levy is effectively a tax on all bank customers and shareholders, including most Australians who are invested in the banks, usually through their superannuation funds. The banks already pay billions of dollars in income tax to the Federal Government each year, and pay 70-80% of their after tax profits to shareholders. This selective levy runs counter to the Government's policy of creating unquestionably strong banks and a safe and reliable financial sector.

Shareholders should take the opportunity to write to their local Federal Member of Parliament calling for a review of the "Major Bank Levy", or at the very least a sunset date coinciding with the return of the Commonwealth budget to surplus.

Continued over

Outlook:

Last year the market produced stronger returns than we expected mainly because global economic growth surprised to the upside. After many years of tepid economic activity following the global financial crisis, growth picked up pace in the fourth quarter of 2016 and has remained relatively buoyant since. At the same time inflation has remained low, and while the peak of central bank stimulation is now behind us, the path of normalisation has so far been cautious and gradual. Commodity prices showed surprising strength as the Chinese government stimulated its economy.

Last financial year was also notable because the dominant investment theme of recent years – 'the hunt for yield' – seemed to be questioned. From a very low base of 1.8%, bond yields rose through the year and this led to bond-like sectors coming under pressure. The property trust sector fell 11% over the year and leading infrastructure stocks finished the year flat. In contrast the resource sector rose 20%.

After many years of very stimulatory monetary policy most asset valuations are high compared with long term historical norms. The Australian share market is no exception. The outlook for equity markets in the year ahead will likely hinge on the inter-play between stronger global economic growth and the withdrawal of monetary stimulus by central banks. If central banks tighten too quickly these elevated valuations are likely to prove unsustainable.

But the more likely outcome is that central banks will exercise caution in unwinding their policy settings because inflation is low and overall indebtedness remains high. It is also widely accepted that the new "neutral" level of interest rates, being where monetary policy is neither stimulatory nor restrictive, is now lower than in the past because of demographics, technology, and other structural factors.

The combination of stronger global economic growth, still relatively low interest rates, and healthy corporate balance sheets, on balance, should allow the Australian share market to make modest gains this financial year.

Charles Goode
Chairman