

# **AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

**ABN 37 004 268 679**

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## **APPENDIX 4E STATEMENT FOR THE YEAR ENDED 30 JUNE 2018**

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- Results for announcement to the market
- Letter to Australian Securities Exchange
- Financial Statements
- Independent Audit Report

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the **year ended 30 June 2018** with the prior corresponding period being the year ended 30 June 2017.

This report is based on audited financial statements. A copy of the audit report can be found on page 29.

### Results for announcement to the market

- Revenue from ordinary activities was \$54.6 million, up 6.9% from the prior year.
- Profit after tax was \$47.8 million, up 8.4% from the prior year.
- Total net profit for the period of \$47.8 million excludes net realised gains and losses which are transferred directly to the Asset Revaluation Reserve under the accounting standards.
- Total net profit includes special dividends and capital gains distributed from managed funds of \$2,470,712 after tax (prior year \$1,656,151). Excluding these items revenue rose 5.5%\* and profit after tax rose 6.8%\*.
- Earnings per share based on profit after tax were 38.6 cents, an increase of 8.1%. Excluding the special dividends distributed and capital gains received earnings per share rose 6.4% to 36.5 cents\*. The weighted average number of ordinary shares for the year was 123,869,817 compared to 123,557,412 in the prior year, an increase of 0.3%.
- The final dividend is 19.0 cents per share (18.5 cents prior year) fully franked at 30%, bringing total dividends for the year to 35.0 cents fully franked at 30% (prior year 34.0 cents). The dividend is payable on 21 September 2018. The record date for determining entitlement to the final dividend is 4 September 2018.
- The final dividend will not include any Listed Investment Company capital gain dividend.
- The Company operates a Dividend Reinvestment Plan (“DRP”) under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange in the five days commencing from the day the shares start trading on an ex dividend basis, without any discount. The last day for the receipt of an election notice for participation in the plan is 5 September 2018.
- The net tangible asset backing per share based on the market valuation of investments was \$9.21 at 30 June 2018, compared to \$8.57 at the end of the prior year. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains/losses, and before provision for the final dividend.

\* Additional non IRFS information.

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

ABN 37 004 268 679

Level 20  
101 Collins Street  
Melbourne Vic 3000  
Australia

Tel (613) 9654 0499  
Fax (613) 9654 3499

14 August 2018

The General Manager  
Australian Securities Exchange  
P O Box H224  
Australia Square  
Sydney NSW 2000

Dear Sir,

**Financial Results and Dividend Announcement**  
**for the Financial Year Ended 30 June 2018**

The Directors make the following report concerning the company's performance and final dividend:-

**Operating Profit and Realised Capital Gains**

Profit after income tax for the year ended 30 June 2018 was \$47,767,772 (last year: \$44,086,600). The profit includes special dividends received after tax of \$659,574 (last year: \$435,000).

The profit includes special dividends and capital gains distributed from managed funds in which the Company invests of \$2,470,712 (prior year \$1,656,151). Excluding these items profit after tax rose 6.8%\*.

Net realised gains on the Company's direct investment portfolio after tax were \$1,953,927 (last year \$2,633,910), which under accounting standards are transferred directly to the Asset Realisation Reserve and not included in Net Profit.

**Earnings Per Share**

Earnings per share based on the weighted average number of shares on issue for the year were 38.6 cents, a rise of 8.1%. Excluding special dividends and capital gains received as income, earnings per share rose 6.4% to 36.5 cents\*.

The weighted average number of ordinary shares for the year was 123,869,817 compared to 123,557,412 last year, taking into account the shares issued on the dividend re-investment plan, an increase of 0.3%.

**Dividends**

The Directors also announce a final dividend of 19.0 cents per share fully franked at 30% to shareholders registered on 4 September 2018, to be paid on 21 September 2018. The comparable 2017 final dividend was 18.5 cents per share fully franked at 30%. Together with the interim dividend of 16.0 cents per share, total dividends for the year are 35.0 cents per share fully franked (last year 34.0 cents).

This is the 25<sup>th</sup> consecutive year in which the Company has increased or maintained its dividend.

\* Additional non IFRS information.

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**LIC Capital Gains**

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

**Dividend Reinvestment Plan**

The Company operates a Dividend Reinvestment Plan (“DRP”) under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange in the five days beginning from the day the shares begin trading on an ex dividend basis, without any discount. The last day for the receipt of an election notice for participation in the plan is 5 September 2018.

**Asset Backing**

The net tangible asset backing per share based on the market valuation of investments was \$9.21 at 30 June 2018 and \$9.36 at 31 July 2018. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains and losses, and before provision for the final dividend.

The Company is a long term investor and does not intend disposing of its total portfolio. If estimated tax on unrealised net portfolio gains were to be deducted, the above figures would be \$7.91 at 30 June 2018 and \$8.01 at 31 July 2018.

**Performance**

The Company’s net asset backing accumulation performance for the year to 30 June 2018 was a rise of 11.8% while the S&P/ASX 200 Accumulation Index rose 13.0% over the same period. The Company’s returns are after tax and expenses and the impact of the Company’s gearing for which no allowance is made in the S&P/ASX Index.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company’s accumulation return for the year to 30 June 2018 was a rise of 13.5% compared to a rise of 14.6% in the S&P/ASX 200 Franking Credit Adjusted Index.

Performance for the year was solid in light of the environment. The financial year was a period of high absolute returns for the ASX 200 index which was up 13% on an accumulation basis. The Company takes a long term conservative approach to investing and was underweight a number of the very highly valued stocks, and the speculative sectors which significantly outperformed the broader market such as the small and mid-cap resources sectors which rose over 40% for the year.

The Company’s relative performance for the year was assisted by overweight allocations to the Energy sector and underweight Telecommunications, but was held back by diversified financials stocks and the underweight allocation to the strong metals and mining sector.

Operating expenses (excluding interest) were 0.09% of the average market value of the portfolio (last year: 0.10%). Including the management fees of the Small Cap Managed Funds in which the Company is invested, the expense ratio was 0.10% (last year: 0.10%).

**Annual General Meeting**

The Annual General Meeting of the Company will be held on Tuesday, 16 October 2018 at 11.00 am at the offices of Evans & Partners, Mayfair Building, 171 Collins Street, Melbourne.

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**Investment Portfolio**

As at 30 June 2018 the twenty-five largest shareholdings of the company, at market values were:

<b>Company</b>	<b>Market Value \$'000</b>	<b>% of Market Value of Total Investments</b>
1. Commonwealth Bank Ltd	92,909	7.3%
2. ANZ Banking Group Ltd	79,778	6.3%
3. CSL Ltd	77,048	6.1%
4. Westpac Banking Corporation Ltd	73,250	5.8%
5. Wesfarmers Ltd	69,104	5.4%
6. BHP Billiton Ltd	62,734	4.9%
7. Rio Tinto Ltd	62,580	4.9%
8. National Australia Bank Ltd	61,672	4.8%
9. Diversified United Investment Ltd	59,040	4.6%
10. Woodside Petroleum Ltd	56,984	4.5%
11. Transurban Group Ltd	55,062	4.3%
12. Woolworths Ltd	30,520	2.4%
13. Sydney Airport	25,060	2.0%
14. Sonic Healthcare Ltd	24,530	1.9%
15. Atlas Arteria Ltd	21,862	1.7%
16. Lend Lease Group	21,791	1.7%
17. Washington H Soul Pattinson	20,690	1.6%
18. Event Hospitality and Entertainment Ltd	20,085	1.6%
19. Oil Search Ltd	19,580	1.5%
20. Brambles Ltd	18,648	1.5%
21. South32 Ltd	18,050	1.4%
22. Invocare Ltd	16,488	1.3%
23. Ramsay Health Care Ltd	16,194	1.3%
24. AMP Ltd	16,020	1.3%
25. Telstra Corporation Ltd	15,720	1.2%
	<hr/>	
	1,035,399	81.3%
	<hr/>	

**Total Investments at Market Value, Net Short  
Term Receivables and Cash**

1,273,659

Note: At 30 June bank facilities were \$150M, drawn as to \$130M and cash and net short term receivables (included in the above figures) were \$39M.

Yours faithfully

A J Hancock  
Company Secretary

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**  
**(ABN 37 004 268 697)**

**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report*

The directors of Australian United Investment Company Limited present their Directors' Report together with the financial report for the year ended 30 June 2018 and the auditor's 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)  
Non-executive Chairman, Appointed April 1990

Mr Goode is the Chairman of the Boards of Diversified United Investment Limited (since 1991), The Ian Potter Foundation Limited (Governor since 1987, Chairman since 1994) 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).

**James Craig** B.Ec/LLB (Adel), LLM (Melb)  
Non-executive Director, Appointed October 2009

Mr Craig is Chairman of River Capital Pty Ltd, and Cell Care Australia Pty Ltd, and a director of Australian Super. He is Chair of the investment committee of Australian Super. He is Chairman of the Company's Nomination and Remuneration Committee.

**Fred Grimwade** B.Com/LLB (Hons) (Melb), MBA (Columbia), FAICD  
Non-executive Director, Appointed March 2014

Mr Grimwade is a Principal and Director of Fawkner Capital Management Pty Ltd. He is currently Chairman of CPT Global Limited and a director of Select Harvests Limited and XRF Scientific Limited. Formerly he held senior executive positions with Colonial First State Investments Group, Colonial Mutual Group, Western Mining Corporation and Goldman, Sachs & Co. He is the Chairman of the Company's Audit and Risk Management Committee.

**Dion Hershan** B.Com/B.A. (Mon), MBA (Columbia)  
Non-executive Director, Appointed April 2018

Mr Hershan is Managing Director and Head of Australian Equities at Yarra Capital Management. He has more than 20 years' finance industry experience. Formerly he held senior executive positions with Goldman Sachs Asset Management, Citadel Investment Group (New York), Fidelity Investments (Boston) and Boston Consulting Group.

**Peter Wetherall** B.E. Hons (Qld), B.A. Hons (Oxon), GAICD  
Non-executive Director, Appointed November 2001, Retired February 2018

Mr Wetherall has over 38 years experience in the Australian sharemarket as a stockbroker and funds manager. He was the founder and Managing Director of Wallara Asset Management Pty Ltd (1995-2012).

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report (Continued)*

### Company Secretary

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

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.

### Operating and Financial Review

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. There has been no significant change in the nature of the Company's activities during the financial year.

For the year ended 30 June 2018 the profit after income tax was \$47,767,772 compared to \$44,086,600 in the previous year – an increase of 8.3%. Special dividends received and capital gains distributed from managed funds during the 2018 year were \$2,470,712 (2017: \$1,656,151). Excluding these items, operating profit increased 6.8%.

The weighted average number of ordinary shares for the year was 123,869,817 compared to 123,557,412 in the previous year, an increase of 0.3%.

The earnings per share were 36.5 cents per share excluding special dividends and capital gains received (2017: 34.3 cents) or were 38.6 cents per share including special dividends and capital gains (2017: 35.7 cents). The Company incurred expenses (excluding finance costs) of \$1,155,585 (2017: \$1,110,018) which is equivalent to 0.09% (2017: 0.10%) of the average market value of the portfolio. Including the management fees of the Small Cap Managed Funds in which the Company invested, the expense ratio was 0.10% (2017: 0.10%).

Bank borrowings facilities were \$150 million, drawn as to \$130 million at the end of the financial year (previous year \$130 million, drawn as to \$130M) gearing the investment portfolio by 10.2%. Cash on hand, cash deposits and net short term receivables were \$39 million or 3.0% of the investment portfolio at market values (2017: \$53 million, 4.5%). Annual interest expense was covered 10.5 times by investment revenue (2017: 10.1 times).

As at 30 June 2018 the Company's portfolio had a market value (including cash and net receivables) of \$1,273,659,349 (2017: \$1,191,370,451). A list of the Company's top 25 investments is set out in note 23 to the financial statements. The net tangible asset backing of the Company's ordinary shares at 30 June 2018 was \$9.21 (2017: \$8.57). This net tangible asset backing calculation is based on investments at market value and is after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains and losses, and before the Company's final dividend. The Company is a long term investor and does not intend disposing of its portfolio. However, if estimated tax on net unrealised portfolio gains were to be deducted, the net tangible asset backing would be \$7.91 (2017: \$7.46).

During the year the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) was an increase of 11.8%, compared to the S&P/ASX 200 Accumulation Index increase of 13.0%.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Operating and Financial Review (continued)

Dividends declared by the Company for the 2018 financial year total 35.0 cents per share fully franked (2017: 34.0 cents per share fully franked).

It is the Directors' intention to continue to invest in a portfolio of listed securities for long term capital gain and current income. The risks to which the Company is exposed are set out in notes 18 and 19 to the Financial Statements.

### Dividends

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

	\$
<b>Paid or declared during the year</b>	
A final dividend in respect of the year ended 30 June 2017 of 18.5 cents per share fully franked at 30% paid on 22 September 2017.	22,884,704
An interim dividend in respect of the year ended 30 June 2018 of 16.0 cents per share fully franked at 30% paid on 17 March 2018.	19,818,119
<b>Paid or declared after end of year</b>	
A final dividend in respect of the year ended 30 June 2018 of 19.0 cents per share fully franked at 30% payable on 21 September 2018.	23,561,229

### 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's Meetings		Audit and Risk Management Committee Meetings		Nomination & Remuneration Committee Meetings	
	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>
Charles B Goode	11	11	2*	2*	2	2
Peter J Wetherall	6	6	1	1	1	1
James S Craig	10	11	2	2	2	2
Fred S Grimwade	11	11	2	2	2	2
Dion Hershan	3	3	-	-	-	-

\* In attendance – not a committee member.

The Audit and Risk Management Committee comprises Messrs Grimwade (Chairman, appointed 7 February 2018), Craig and Hershan. Mr Wetherall was Chairman until his retirement on 7 February 2018.

All directors are members of the Nomination and Remuneration Committee, which is chaired by Mr Craig.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Directors' Interests

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

Notes	Shares		
	1	2	3
Charles B Goode	114,346	1,203,336	33,583
Peter J Wetherall	-	-	-
James S Craig	-	350,000	-
Fred S Grimwade	-	10,000	-
Dion Hershan	-	12,000	-

#### 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 <sup>(i)</sup>					
	2018			2017		
	Fee \$	Superannuation \$	Total \$	Fee \$	Superannuation \$	Total \$
Charles Goode	154,338	14,662	169,000	150,685	14,315	165,000
Peter Wetherall	46,598	4,427	51,025	75,342	7,158	82,500
James Craig	77,169	7,331	84,500	61,421	21,079	82,500
Fred Grimwade	77,169	7,331	84,500	75,342	7,158	82,500
Dion Hershan	15,924	1,513	17,437	-	-	-
<b>Total</b>	<b>371,198</b>	<b>35,264</b>	<b>406,461</b>	<b>362,790</b>	<b>49,710</b>	<b>412,500</b>

- (i) 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. Other than the Company Secretary, the Company has no executives or executive directors.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Remuneration report (audited) (continued)

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 outcome 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 annual general meeting.

Directors' fees are fixed and not conditional on the Company's performance. However, consideration of the Company's performance and benefits for shareholder wealth in respect of the current financial year and the previous four financial years include:

	2018	2017	2016	2015	2014
Operating Profit (\$ Million)	47.8	44.1	42.2	47.8	40.3
Earnings Per Share (total)	38.6	35.7	35.2	43.0	36.6
Earnings Per Share (excluding special dividends and capital gains from managed funds)	36.5	34.3	35.0	37.7	35.5
Dividends paid (cents per share)	35.0	34.0	34.0	33.4	31.5
Share Price 30 June	\$8.65	\$8.09	\$7.15	\$8.06	\$8.01
Management Expense Ratio	0.09%	0.10%	0.10%	0.10%	0.11%
Net asset backing per share before tax on unrealised gains 30 June	\$9.21	\$8.57	\$7.57	\$8.28	\$8.43
AUI net asset backing accumulation return before tax or unrealised gains	11.8	18.0	(4.2)	2.0	18.7
S&P/ASX 200 Index accumulation return	13.0	14.1	0.6	5.6	17.3

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. Refer to Note 15 of the financial statements for information relating to the insurance. 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.

The Company Secretary, Mr Andrew J Hancock, received \$123,000 (2017: \$120,000) 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 \$10,148 for these services including GST.

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 and Risk Management Committee to ensure they do not affect the integrity and objectivity of the auditor; and

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report (Continued)*

### Non-audit services (continued)

- 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.

### 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

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 8 and forms part of the Directors' Report for the year ended 30 June 2018.

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

Charles Goode  
Director  
Melbourne, 14 August 2018



# 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 audit of Australian United Investment Company Limited for the financial year ended 30 June 2018 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.

A handwritten signature of 'KPMG' in blue ink, written in a cursive style.

KPMG

A handwritten signature of 'Maria Trinci' in blue ink, written in a cursive style.

Maria Trinci  
*Partner*

Melbourne  
14 August 2018

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 30 June 2018**

	Note	2018 \$	2017 \$
Revenue from investment portfolio	2(a)	54,580,089	51,047,451
Administration and other expenses		(1,155,585)	(1,110,018)
Finance expenses	2(b)	(5,183,712)	(5,057,166)
<b>Profit before income tax</b>		<b>48,240,792</b>	<b>44,880,267</b>
Income tax expense	4(a)	(473,020)	(793,667)
<b>Profit</b>		<b>47,767,772</b>	<b>44,086,600</b>
<b>Other Comprehensive Income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of investment portfolio for the year		74,060,064	121,488,131
Provision for tax expense on revaluation of investment portfolio for the year		(23,081,860)	(37,180,929)
<b>Other comprehensive profit net of income tax</b>		<b>50,978,204</b>	<b>84,307,202</b>
<b>Total comprehensive income</b>		<b>98,745,975</b>	<b>128,393,802</b>
Basic and diluted earnings per share (cents)	5	38.6	35.7

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

**Balance Sheet**  
**as at 30 June 2018**

	Note	2018 \$	2017 \$
<b>Assets</b>			
Cash assets	16	22,815,836	41,476,805
Receivables	7	16,559,523	15,756,290
Other	9	107,073	68,603
<b>Total Current Assets</b>		<b>39,482,432</b>	<b>57,301,698</b>
Investment portfolio	8	1,234,283,989	1,138,120,986
<b>Total Non-Current Assets</b>		<b>1,234,283,989</b>	<b>1,138,120,986</b>
<b>Total Assets</b>		<b>1,273,766,421</b>	<b>1,195,422,684</b>
<b>Liabilities</b>			
Payables	10	74,921	4,137,362
Borrowings – interest bearing	12	10,017,037	-
Current tax payable	4(c)	292,466	(33,814)
<b>Total Current Liabilities</b>		<b>10,384,424</b>	<b>4,103,548</b>
Provision for long service leave		46,119	42,726
Borrowings – interest bearing	12	120,886,308	130,657,743
Deferred tax liability	4(b)	161,387,381	138,152,191
<b>Total Non-Current Liabilities</b>		<b>282,319,808</b>	<b>268,852,660</b>
<b>Total Liabilities</b>		<b>292,704,232</b>	<b>272,956,208</b>
<b>Net Assets</b>		<b>981,062,189</b>	<b>922,466,476</b>
<b>Equity</b>			
Issued capital	13(a)	442,948,316	440,395,756
Reserves		538,113,873	482,070,720
<b>Total Equity</b>		<b>981,062,189</b>	<b>922,466,476</b>

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

**Statement of Changes in Equity  
for the year ended 30 June 2018**

	Issued Capital \$	Revaluation Reserve \$	Realisation Reserve \$	Retained Earnings \$	Total \$
<b>As at 1 July 2016</b>	437,926,192	253,183,931	15,734,562	126,733,088	833,577,773
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	121,488,131	-	-	121,488,131
Tax expense on revaluation	-	(37,180,929)	-	-	(37,180,929)
Net realised gains on investment portfolio	-	(4,485,093)	4,485,093	-	-
Tax expense on net realised gains	-	1,851,183	(1,851,183)	-	-
Profit	-	-	-	44,086,600	44,086,600
	-	81,673,292	2,633,910	44,086,600	128,393,802
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	2,469,564	-	-	-	2,469,564
Dividends paid	-	-	-	(41,974,663)	(41,974,663)
	2,469,564	-	-	(41,974,663)	(39,505,099)
<b>As at 30 June 2017</b>	440,395,756	334,857,223	18,368,472	128,845,025	922,466,476

	Issued Capital \$	Revaluation Reserve \$	Realisation Reserve \$	Retained Earnings \$	Total \$
<b>As at 1 July 2017</b>	440,395,756	334,857,223	18,368,472	128,845,025	922,466,476
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	74,060,064	-	-	74,060,064
Tax expense on revaluation	-	(23,081,860)	-	-	(23,081,860)
Net realised gains on investment portfolio	-	(2,166,329)	2,166,329	-	-
Tax expense on net realised gains	-	212,402	(212,402)	-	-
Profit	-	-	-	47,767,772	47,767,772
	-	49,024,277	1,953,927	47,767,772	98,745,976
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	2,552,560	-	-	-	2,552,560
Dividends paid	-	-	-	(42,702,823)	(42,702,823)
	2,552,560	-	-	(42,702,823)	(40,150,263)
<b>As at 30 June 2018</b>	442,948,316	383,881,500	20,322,399	133,909,974	981,062,189

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

**Statement of Cash Flows  
for the year ended 30 June 2018**

	Note	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Interest received		676,532	346,120
Dividends and trust distributions received		52,962,220	47,477,569
Option premium income received		207,688	1,380,471
Finance costs paid		(4,938,110)	(4,240,382)
Administration and other expenses paid		(1,269,541)	(1,139,872)
Withholding taxes refunded		33,814	63,700
<b>Net cash flow from operating activities</b>	16	47,672,603	43,887,606
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		44,987,059	88,090,094
Purchases of investments		(71,170,437)	(77,321,327)
<b>Net cash flow from investing activities</b>		(26,183,378)	10,768,767
<b>Cash flows from financing activities</b>			
Proceeds from additional borrowings - NAB		-	8,000,000
Dividends paid net of dividend reinvestment plan		(40,150,194)	(39,505,096)
<b>Net cash flow used in financing activities</b>		(40,150,194)	(31,505,096)
Net increase / (decrease) in cash held		(18,660,969)	23,151,277
Cash and cash equivalents at 1 July	16	41,476,805	18,325,528
<b>Cash and cash equivalents at 30 June</b>	16	22,815,836	41,476,805

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## **Notes to the Financial Statements for the year ended 30 June 2018**

### 1. Statement of Significant Accounting Policies

Australian United Investment Company Limited (the 'Company') is a for-profit Company domiciled in Australia.

The financial report was authorised for issue by the directors on 14 August 2018.

#### (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 early adopted AASB 9 Financial Instruments with initial application from 7 December 2009 (being the earliest available date of application). The Company has not applied any other Australian Accounting Standards that have been issued as at balance date but are not yet operative for the year ended 30 June 2018 ("the inoperative standards"). The effect of inoperative standards has been assessed and the effect has been identified as not being material.

AASB 15 Revenue from Contracts with Customers is applicable for the year ending 30 June 2019. The Company has assessed the impact of the new standard and has determined that it will have no impact on the accounting for the Company's revenue.

AASB 16 Leases is applicable for the year ending 30 June 2020. The Company has assessed the impact of the new standard and has determined that it will not have a material impact to the Company's financial statements.

The financial report is prepared on a historical cost basis except that the investment portfolio is stated at its 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 Australian Accounting Standards, the Company has elected to classify equity investments at fair value through other comprehensive income, as they are not held for trading. After initial recognition at fair value (being cost), investments are measured at fair value.

Unrealised gains or losses on equity investments are recognised as a separate component of equity in the Asset Realisation Reserve 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.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## **Notes to the Financial Statements for the year ended 30 June 2018**

### 1. Statement of Significant Accounting Policies (continued)

#### (c) Investments (continued)

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. 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 and option premiums. Dividend income is recognised in the income statement at ex-dividend date and all other income is recognised on an accruals basis. Special dividends are those dividends received which have been designated as special and non-recurring by the declaring company.

The managed funds in which the Company invests distribute realised capital gains from time to time and these are included in operating revenue, as required under accounting standards.

The Company may write covered call options where it is prepared to sell or reduce an investment at prices higher than current market. Open options contracts are marked to market through the profit and loss account.

#### (e) Taxation

The income tax expense or revenue for the period is the tax payable or receivable 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 equity securities in the investment portfolio is recognised directly in the Asset Realisation Reserve 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. At this time, the tax recognised directly in the Revaluation Reserve is transferred to the Realisation Reserve. The associated deferred tax liability is similarly adjusted and transferred to current tax payable.

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.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 1. Statement of Significant Accounting Policies (continued)

#### (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

	2018	2017
	\$	\$
<b>(a) Revenue</b>		
Ordinary dividends received or due and receivable	46,442,641	43,799,902
Special dividends received or due and receivable	670,428	435,000
Dividends received or due and receivable	47,113,069	44,234,902
Interest received or due and receivable	676,532	346,116
Trust distributions received or due and receivable	6,582,799	5,085,962
Option premium income	207,689	1,380,471
	54,580,089	51,047,451
<b>(b) Expenses</b>		
<i>Finance expenses</i>		
Interest and borrowing expenses	5,183,712	5,057,166

### 3. Auditor's Remuneration

	2018	2017
	\$	\$
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	47,054	46,453
- Tax related services	10,148	9,866

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2018

### 4. Taxation

	2018 \$	2017 \$
<b>(a) Income Tax Expense</b>		
<i>(i) Recognised in the income statement</i>		
<b>Current tax expense</b>		
Current year tax payment accrued	(560,274)	(32,680)
Over provision for prior years	240,584	6,540
	(319,690)	(26,140)
<b>Deferred Tax Expense</b>		
Recognition of tax losses and deferred tax balances	(151,915)	(781,766)
Temporary differences	(1,415)	14,239
	(153,330)	(767,527)
<b>Total income tax expense in income statement</b>	(473,020)	(793,667)
<i>(ii) Reconciliation between tax expense and pre-tax net profit</i>		
Prima facie tax expense calculated at 30% on the profit for the year	(14,479,737)	(13,464,080)
<b>Increase in tax expense due to:</b>		
Franking credits gross-up on dividends received	(5,470,803)	(5,121,426)
Franking credits gross-up on managed fund distributions	(66,579)	-
Foreign credits gross-up on managed fund distributions	(3,638)	-
<b>Decrease in tax expense due to:</b>		
Tax deferred revenue received	286,758	400,297
Franking credits on dividends received	18,236,011	17,071,419
Franking credits on managed fund distributions	221,929	-
Foreign credits on managed fund distributions	12,126	-
Sundry items	555,899	313,583
Tax expense on operating profit	(713,604)	(800,207)
Over provision for prior years	240,584	6,540
Income tax expense attributable to profit for the year	(473,020)	(793,667)
<i>(iii) Deferred tax recognised directly in equity</i>		
Increase in provision for tax on unrealised gains on the equity investment portfolio	23,081,860	37,180,929

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 4. Taxation (continued)

	2018	2017
	\$	\$
<b>(b) Deferred Tax Assets and Liabilities</b>		
<i>Recognised Deferred Tax Assets and Liabilities</i>		
Revaluation reserve – Provision for tax on unrealised gains on the equity investment portfolio	(170,284,876)	(147,415,418)
Tax effect of unfranked dividend receivable	(81,465)	(72,063)
Tax benefit of audit fee accrual	6,969	-
Tax benefit of capital losses carried forward	8,958,155	9,170,557
Tax benefit of income tax losses carried forward	-	151,915
Tax benefit of long service leave	13,836	12,818
<b>Net deferred tax liabilities</b>	<b>(161,387,381)</b>	<b>(138,152,191)</b>

### (c) Current Tax Payable

Current year tax liability	(292,466)	-
Less: withholding taxes receivable	-	33,814
<b>Current tax payable</b>	<b>(292,466)</b>	<b>33,814</b>

### 5. Earnings Per Share

	2018	2017
	Cents	Cents
Basic and diluted earnings per share	38.6	35.7
Earnings per share excluding special dividends received and capital gains distributed from managed funds (refer Note 1(d))	36.5	34.3

There are no factors which cause diluted earnings per share to be different from basic earnings per share.

The earnings per share for the year is calculated on a weighted average adjusted number of ordinary shares of 123,869,817 (2017: 123,557,412). The weighted average adjusted number of ordinary shares takes into account the shares issued in the dividend re-investment plan.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 6. Dividends

	2018	2017
	\$	\$
Dividends recognised in the current year by the Company are:		
(i) 2017 final dividend of 18.5 cents per share (2017: 18.5 cents) fully franked paid 22 September 2017	22,884,704	22,823,692
(ii) 2018 interim dividend of 16.0 cents per share (2017: 15.5 cents) fully franked paid 17 March 2018	19,818,119	19,150,971
	<u>42,702,823</u>	<u>41,974,663</u>

Since 30 June 2018, the directors have declared the following dividend payable on 21 September 2018:

Final dividend of 19.0 cents per share fully franked (2017: 18.5 cents)	23,561,229	22,884,991
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The final dividend will not contain a Listed Investment Company (LIC) capital gain dividend (2017: nil).

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018.

#### **Dividend Franking Account:**

The balance of the Franking Account at 30 June 2018 is \$42,479,883 (2017: \$42,080,133) after adjusting for:

- (a) franking credits that will arise from any current income tax liability;
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end.

After allowing for the final 2018 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$32,382,214 (2017: \$32,272,280). The ability to utilise the franking credits is dependent upon the ability of the Company to declare dividends.

#### **Listed Investment Company (LIC) Capital Gain Account:**

The balance of the LIC Capital Gain Account at 30 June 2018 was \$372,101 (2017: \$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.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 7. Receivables

	2018	2017
	\$	\$
<b>Current</b>		
Dividends Receivable	7,245,500	7,286,000
Trust Distributions Receivable	3,723,263	2,976,340
Other - Unsettled equity sales	5,590,760	5,493,950
	16,559,523	15,756,290

### 8. Investments

	2018	2017
	\$	\$
<b>Non-Current</b>		
Investments in equities quoted on prescribed stock exchanges (at fair value)	1,234,283,989	1,138,120,986

### 9. Other Assets

	2018	2017
	\$	\$
<b>Current</b>		
Prepayments	107,073	68,603

### 10. Payables

	2018	2017
	\$	\$
<b>Current</b>		
Trade Creditors	74,921	153,732
Other - Unsettled equity purchases	-	3,983,630
	74,921	4,137,362

### 11. Finance Facilities

	2018	2017
	\$	\$
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Loan Facility – Secured	150,000,000	130,000,000
<i>Facilities utilised at balance date</i>		
Loan Facility – Secured	130,000,000	130,000,000

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 12. Borrowings Drawn

	2018	2017
	\$	\$
<b>Current</b>		
Loan Facility Drawn – Secured	10,017,037	-
<b>Non-Current</b>		
Loan Facility Drawn – Secured	120,886,308	130,657,743

The face value of the drawn facility is \$130 million (2017: \$130 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.

### 13. Capital and Reserves

#### (a) Issued Capital

	2018	2017
	\$	\$
Issued and paid-up share capital		
124,006,471 (2017: 123,702,655) fully paid ordinary shares	442,948,316	440,395,756
Movements in issued capital:		
Balance at beginning of the financial year	440,395,756	437,926,192
Shares issued		
- Dividend re-investment plan <sup>(1)</sup>	2,552,560	2,469,564
	442,948,316	440,395,756

(1) In respect of the final dividend paid in September 2017, 164,627 ordinary shares were issued at \$8.23 each and in respect of the interim dividend paid in March 2018, 139,189 ordinary shares were issued at \$8.61 each.

#### (b) Nature and Purpose of Reserves

##### **Revaluation Reserve**

Increments or decrements on the revaluation of long term equity 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 the sale of investments in equities which are transferred from the Revaluation Reserve.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## **Notes to the Financial Statements for the year ended 30 June 2018**

### 14. Directors' Remuneration

The total director's remuneration for the year is \$406,461 (2017: \$412,500). 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 C B Goode (Chairman), J S Craig, F S Grimwade, D Hershan and P J Wetherall.

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 wilful breach of duty. This insurance premium covers the period 18 June 2018 to 17 June 2019.

#### 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 01/07/2017	Purchases	Sales	Held at 30/06/2018
Charles B. Goode	1,297,433	53,832	-	1,351,265
James S Craig	350,000	-	-	350,000
Fred S Grimwade	10,000	-	-	10,000
Dion Hershan	-	12,000	-	12,000

#### Directors' Transactions in Shares

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

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 16. Notes to the Statement of Cash Flows

	2018	2017
	\$	\$
<b>Reconciliation of Cash</b>		
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 is shown in the statement of cash flows and the balance sheet as follows:		
Units in Cash Management Trusts and Deposits at call	22,815,836	41,476,805
<b>Reconciliation of operating profit after income tax to net cash provided by operating activities:</b>		
Profit for the year	47,767,772	44,086,600
<i>Add / (less) changes in assets and liabilities:</i>		
(Increase) / decrease in dividends receivable	40,500	139,250
(Increase) / decrease in trust distributions receivable	(746,924)	(1,922,590)
(Increase) / decrease in other prepayments	(52,211)	(5,810)
(Increase) / decrease in deferred tax assets	471,605	807,906
(Increase) / decrease in other assets	13,672	(10,937)
Increase / (decrease) in deferred tax liability	1,415	(14,239)
Increase / (decrease) in other taxes	6,590	3,745
Increase / (decrease) in prepaid interest and borrowing costs	245,602	816,784
Increase / (decrease) in accrued expenses	(78,813)	(14,858)
Increase / (decrease) in provisions	3,395	1,755
<b>Net cash provided by operating activities</b>	<b>47,672,603</b>	<b>43,887,606</b>

### 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 assets 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.

The Company is not subject to any externally imposed capital requirements.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## **Notes to the Financial Statements for the year ended 30 June 2018**

### 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, and receives advice from the Audit and Risk Management Committee.

#### **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. Refer Notes 7 and 16.

#### *Cash*

The Company invests in cash management units with the MF Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA- 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.

Given the nature of the counterparties with which the Company deals, management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets are overdue 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 \$130 million at the end of the financial year (previous year \$130 million) gearing the investment portfolio by 10.2% (previous year 10.9%). The Company has interest bearing loan facilities in place with the National Australia Bank which include both fixed and floating rate components. These facilities expire on various intervals through to 31 July 2023, unless renewed. Annual interest expense during the year was covered 10.5 times by investment revenue (previous year 10.1 times).

The major cash inflows for the Company include dividends, distributions and sales proceeds received. The major cash outflows are the purchase of securities, interest expense and dividends paid to shareholders, 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.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 18. Financial Risk Management (continued)

#### 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 in securities whose market prices can fluctuate.

Based on a tax rate of 30% (2017: 30%), a general movement in market prices of 5% and 10% would lead to a change in the Company's equity of \$43,199,940 or 4.4% (2017: \$39,834,235, or 4.3%) and \$86,399,879 or 8.8% (2017: \$79,668,469, or 8.6%) respectively, after tax.

Market risk is managed by ensuring that the Company's investment portfolio is not overly 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 at each Director's meeting.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 19, which is minimised through conservative levels of gearing 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 investee companies' 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 2018 and the effective weighted average interest rate for classes of financial assets which bear interest is set out below.

	Note	Floating Interest Rate \$
<b>Financial Assets - 2018</b>		
Cash	16	22,815,836
Weighted Average Interest Rate		1.70%
<b>Financial Assets - 2017</b>		
Cash	16	41,476,805
Weighted Average Interest Rate		1.67%

The Company has secured borrowing facilities in place with the National Australia Bank Ltd totalling \$150,000,000 (2017: \$130,000,000) as follows:

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2018

### 19. Financial Instruments Disclosure (continued)

#### Interest Rate Risk (continued)

*National Australia Bank Ltd*

	Amount	Maturity	Interest Rate <sup>(1)</sup>
1	\$10,000,000	19 June 2019	Fixed 5.150%
2	\$10,000,000	31 July 2019	Fixed 3.880%
3	\$10,000,000	28 November 2019	Fixed 4.510%
4	\$20,000,000	23 June 2020	Fixed 4.050%
5	\$10,000,000	30 October 2020	Fixed 3.600%
6	\$5,000,000	2 July 2021	Fixed 3.760%
7	\$15,000,000	2 July 2021	Fixed 4.010%
8	\$20,000,000	2 July 2022	Fixed 3.940%
9	\$10,000,000	31 July 2023	Fixed 4.280%
10	\$20,000,000 <sup>(3)</sup>	31 July 2018	Fixed 3.305%
11	\$20,000,000 <sup>(2)</sup>	31 July 2019	Floating 3.250%
Total	\$150,000,000		

(1) Interest rate includes bank margins and fees

(2) During the year ended 30 June 2018, an additional NAB Offset Facility for \$20 million was established and remains undrawn as at 30 June 2018.

(3) When Facility 10 for \$20 million expires in July 2018, Facility 11 increases from \$20 million to \$40 million and the total borrowing facilities remain at \$150M.

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

Equities	No. of Shares	Value at 30 June 2018	
			\$
ANZ Bank Ltd	2,750,000		77,660,000
BHP Billiton Ltd	1,750,000		59,342,500
Commonwealth Bank Ltd	775,000		56,474,250
National Australia Bank Ltd	2,000,000		54,820,000
Rio Tinto Ltd	500,000		41,720,000
South32 Ltd	1,000,000		3,610,000
Transurban Group	4,000,000		47,880,000
Westpac Banking Corporation Ltd	2,500,000		73,250,000
Wesfarmers Ltd	1,000,000		49,360,000
Woodside Petroleum Ltd	1,000,000		35,460,000
Total	17,275,000		499,576,750

The terms of the agreement require the market value of the securities to satisfy a minimum value of \$380,000,000 for the \$130 million loan facilities. For the \$20 million Offset Facility, the terms of the agreement require the bank's valuation of the securities lodged to exceed the drawn loan amount by an adequate margin. The loan was undrawn at 30 June 2018.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## ***Notes to the Financial Statements for the year ended 30 June 2018***

### **19. Financial Instruments Disclosure (continued)**

#### **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 market 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. The net fair value of unlisted managed funds is determined by valuing them at the net asset value provided by the fund manager as at balance date. Unlisted managed funds included in "Investments" are considered "level 2" under the fair value measurement hierarchy, which is defined as inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices). Level 2 investments comprised \$19,508,185 (2017: \$18,096,581). 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 2018.

### **21. Segment Reporting**

The Company operates as an investment company in Australia.

### **22. Events Subsequent to Balance Date**

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.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2018*

### 23. Holdings of Securities as at 30 June 2018

The following is a list of the Company's top 25 investments as at 30 June 2018, which represent 81% of the total investment portfolio (2017: 80%). All investments are valued at fair value through Other Comprehensive Income.

2018		2017	
Company	Market Value \$	Company	Market Value \$
1 Commonwealth Bank Of Australia Ltd	92,909,250	Commonwealth Bank Of Australia Ltd	105,582,750
2 Australia & New Zealand Banking Group Ltd	79,778,000	Australia & New Zealand Banking Group Ltd	81,134,000
3 CSL Ltd	77,048,000	Westpac Banking Corporation Ltd	76,275,000
4 Westpac Banking Corporation	73,250,000	National Australia Bank Ltd	66,577,500
5 Wesfarmers Ltd	69,104,000	Wesfarmers Ltd	56,168,000
6 BHP Billiton Ltd	62,733,500	CSL Ltd	55,212,000
7 Rio Tinto Ltd	62,580,000	Diversified United Investment Ltd	53,568,000
8 National Australia Bank Ltd	61,672,500	Transurban Group	50,362,500
9 Diversified United Investment Ltd	59,040,000	Rio Tinto Ltd	47,452,500
10 Woodside Petroleum Ltd	56,984,220	BHP Billiton Ltd	43,068,000
11 Transurban Group	55,062,000	Woodside Petroleum Ltd	37,337,500
12 Woolworths Ltd	30,520,000	Woolworths Ltd	30,648,000
13 Sydney Airport Group	25,060,000	Telstra Corporation Ltd	25,800,000
14 Sonic Healthcare Ltd	24,530,000	Sonic Healthcare Ltd	24,220,000
15 Atlas Arteria Ltd Ordinary Stapled Sec	21,862,000	AMP Ltd	23,355,000
16 Lend Lease Group	21,791,000	Ramsay Health Care Ltd	22,080,000
17 Washington H Soul Pattinson & Company Ltd	20,690,000	Brambles Ltd	20,461,560
18 Event Hospitality and Entertainment Ltd	20,085,000	Event Hospitality and Entertainment Ltd	20,055,000
19 Oil Search Ltd	19,580,000	Sydney Airport	18,434,000
20 Brambles Industries Ltd	18,648,000	LendLease Group	18,315,000
21 South32 Ltd	18,050,000	Macquarie Atlas Roads Group	16,830,000
22 Invocare Ltd	16,488,000	Link Administration Holdings Ltd	16,781,545
23 Ramsay Health Care Ltd	16,194,000	Washington H Soul Pattinson & Co Ltd	16,670,000
24 AMP Ltd	16,020,000	Orica Ltd	15,539,550
25 Telstra Corporation Ltd	15,720,000	Oil Search Ltd	15,004,000
<b>Total Top 25 Investments</b>	<b>1,035,399,470</b>		<b>956,931,405</b>
<b>Total Investments at Market Value, Net Short Term Receivables and Cash</b>	<b>1,273,659,349</b>		<b>1,191,370,451</b>

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *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 9 to 27, and the remuneration disclosures that are contained in the Remuneration Report on pages 5 and 6 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 2018 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 2018.

Signed in accordance with a resolution of the directors.

Charles Goode

Director

Dated at Melbourne this 14<sup>th</sup> day of August 2018.



# Independent Auditor's Report

To the members of Australian United Investment Company Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Australian United Investment Company Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Company's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Balance Sheet as at 30 June 2018
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation and existence of the investment portfolio
- Completeness of the deferred tax liability

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation and existence of investment portfolio (\$1,234,283,989)

Refer to Note 8 - Investments

#### The key audit matter

The Company's investment portfolio is \$1,234,283,989 which constitutes 97% of the Company's total assets as at 30 June 2018.

We do not consider the fair value of the investment portfolio to be judgemental in nature as it is mostly comprised of equity securities listed on the Australian Securities Exchange. However, due to the size of the investment portfolio, valuation and existence is considered a key audit matter. It is an area which had the greatest effect on our overall audit strategy and allocation of time and resources in planning and completing our audit.

#### How the matter was addressed in our audit

Our procedures included:

- Documenting and assessing the processes and key controls in place to buy and sell investments in the portfolio, including the process to value investments within the portfolio;
- Assessing the valuation of a sample of investments by comparing the valuation to publicly quoted prices;
- For a sample of investments, comparing the number of shares or units held to third party share or unit registry records; and
- Performing a recalculation of the total value of investments based on the last quoted market price.

### Completeness of Deferred tax liability (\$161,387,381)

Refer to Note 4 - Taxation

#### The key audit matter

The Company's deferred tax liability is \$161,387,381 which constitutes 55% of the Company's total liabilities as at 30 June 2018.

The deferred tax liability relates to the expected tax on disposal of investments in the investment portfolio and is recognised in equity and as a

#### How the matter was addressed in our audit

Our procedures included:

- Involving our tax specialists, evaluating the reconciliation of the opening to closing deferred tax balances;
- Recalculating the deferred tax liability, including checking the valuation and accuracy of the market value of the investment portfolio and checking the tax base to the Company's investment register;



<p>deferred tax liability. The deferred tax liability is determined as the tax effect, applying a 30% corporate tax rate, of the difference between the carrying amount of the investment portfolio as per the financial statements and the tax base recorded.</p> <p>The Company's deferred tax assets are set off against the deferred tax liability arising on the unrealised gains on the investment portfolio in the Balance Sheet.</p> <p>The completeness of the deferred tax liability is a key audit matter given it represents a significant portion of the total liabilities of the Company and involved the use of senior audit team members, including tax specialists.</p>	<ul style="list-style-type: none"><li>• Recalculating the closing tax cost base by adding the total purchases and sales for the year, stated at their tax cost base, to the opening balance of the investment portfolio and reconciling this to the Company's portfolio valuation report; and</li><li>• Assessing whether the tax effects of significant events such as corporate actions, such as fair value or tax base adjustments, have been appropriately identified, calculated and recorded.</li></ul>
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## Other Information

Other Information is financial and non-financial information in Australian United Investment Company Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf).

This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Australian United Investment Company Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 5 to 6 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Maria Trinci

Partner

Melbourne

14 August 2018