

Australian United Investment Company Limited

ABN 37 004 268 679



2006 Annual Financial Report



Directory

Directors

C B Goode AC - Chairman
G E Moir
P J B Rose AO
P J Wetherall
R R Dewhurst

Company Secretary

Andrew J Hancock FCA

Principal Office

Level 4
45 Exhibition Street
Melbourne Vic 3000
Tel: (613) 9654 0499
Fax: (613) 9654 3499
Email: info@au.com.au
Website: www.au.com.au

Registered Office

Australian United Investment Company Limited
C/- KPMG
147 Collins Street
Melbourne Vic 3000

Bankers

National Australia Bank Limited

Auditors

KPMG
Chartered Accountants

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067
Tel: 1300 850 505 or (613) 9415 5000
Fax: (613) 9473 2500
Website: www.computershare.com

Stock Exchange

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



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Chairman's Report

I am pleased to present the Annual Report of Australian United Investment Company Limited for the year ended 30 June 2006.

The operating profit after income tax, excluding realised gains on the investment portfolio, was \$22,085,534 compared to \$18,567,725 in the previous year, an increase of 18.9%, or 15.0% if special dividends received in both periods are excluded.

The operating earnings per share (excluding realised gains) were 26.3 cents compared to 22.5 cents for the previous year, or 23.6 cents excluding special dividends received (previously 20.9 cents).

This year special dividends totalling \$2,269,000 after tax were received from Bluescope Steel, CSL, GWA International, Insurance Australia Group, IOOF, Perpetual Trustees, Promina Group, Rio Tinto, Suncorp Metway, Telstra, Ten Network and Village Roadshow. In 2005, special dividends of \$1,339,000 after tax were received.

Bank borrowings were \$65 million at the end of the financial year (previous year \$50 million) amounting to around 9% of the investment portfolio at market values. Annual interest expense is covered eight times by investment revenue.

The net asset backing per share before provision for estimated tax on unrealised gains and the final dividend was \$7.44 at 30 June 2006, compared to \$6.01 at 30 June 2005.

Operating expenses (excluding borrowing costs) were 0.13% of the average market value of the portfolio compared to 0.16% in 2005.

The final dividend for the year ending 30 June 2006, is 11 cents per share fully franked which with the interim dividend of 8.5 cents per share fully franked makes 19.5 cents per share fully franked for the year. This compares with 17.0 cents per share fully franked in the previous year, an increase of 14.7%, and the thirteenth consecutive year in which dividends have been increased.

8.5 cents per share of the final dividend will be paid in the form of a Listed Investment Company capital gain dividend which will enable some shareholders to claim a tax deduction in their income tax return. Details will be set out on the dividend payment advice. The ability of the Company to pay LIC dividends is dependent on a number of factors including gains realised from time to time on the long term investment portfolio. This year, realised capital gains arose principally from the takeover of our holding in WMC Resources Ltd.

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

	Cents per share
2001/02	13.5
2002/03	14.0
2003/04	15.0
2004/05	17.0
2005/06	19.5

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

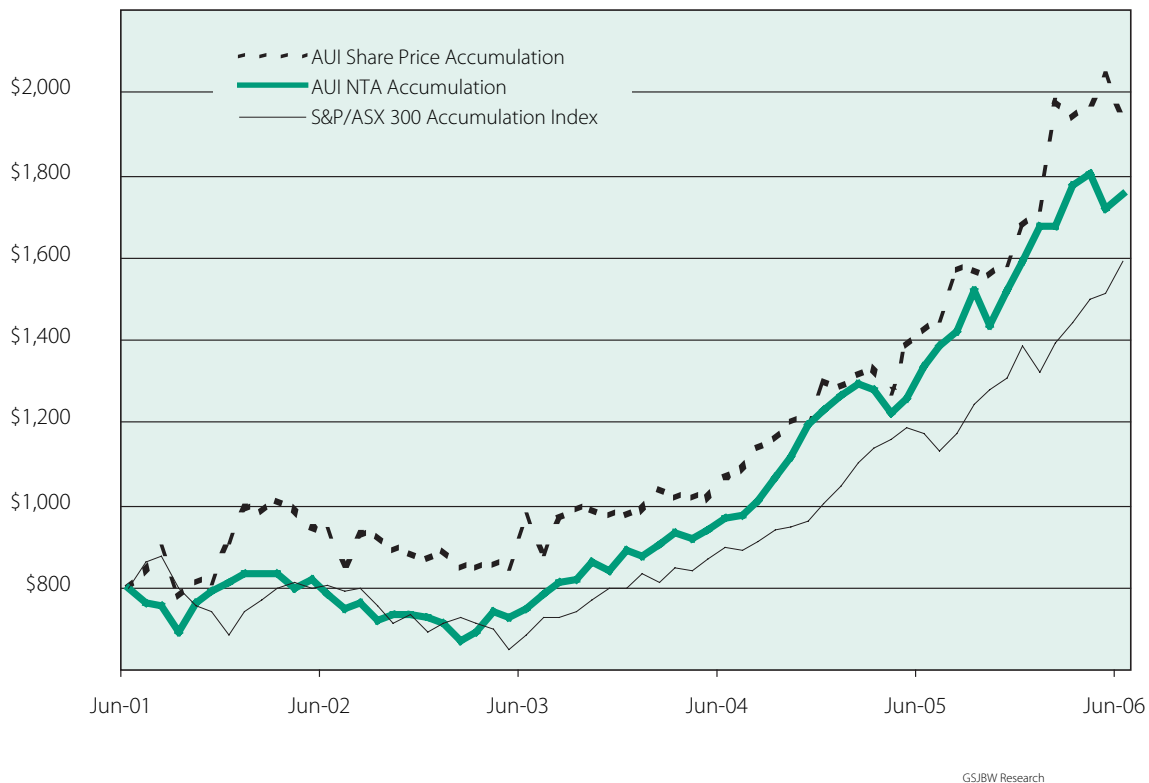
30 June 2002	\$4.28 (After one for five rights issue at \$3.50, June 2002)
30 June 2003	\$3.95
30 June 2004	\$4.72
30 June 2005	\$6.01
30 June 2006	\$7.44

The Company's net asset backing accumulation performance in recent years (assuming all dividends were re-invested) is as follows:

	AUI Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	27.1	24.0
3 Years	27.3	23.9
5 Years	14.3	12.3
7 Years	15.5	12.7

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

Accumulated Investment Return vs S&P/ASX 300 Accumulation Index 5 Years to June 2006



The equity portfolio of the Company is invested in Australian equities and at 30 June 2006 was spread over 54 companies. The Annual Report provides a list of the shareholdings at 30 June 2006 and 30 June 2005, the changes to the portfolio during the year, and the market values as at 30 June 2006 of each investment together with its percentage of the portfolio.

Chairman's Report (Continued)

As at 30 June 2006 the twenty-five largest shareholdings of the company, at market values were:

Company	Market Value \$'000	% of Market Value of Total Investments
1. BHP Billiton Ltd	53,650	7.7%
2. Rio Tinto Ltd	46,680	6.7%
3. ANZ Banking Group Ltd	46,533	6.7%
4. Woodside Petroleum Ltd	37,400	5.4%
5. National Australia Bank Ltd	35,160	5.1%
6. Diversified United Investment Ltd	31,735	4.6%
7. Westpac Banking Corporation Ltd	31,428	4.5%
8. Alumina Ltd	29,362	4.2%
9. Tabcorp Holdings Ltd	24,320	3.5%
10. Wesfarmers Ltd	21,198	3.1%
11. Woolworths Ltd	20,150	2.9%
12. Commonwealth Bank Ltd	19,985	2.9%
13. Brambles Industries Ltd	19,800	2.9%
14. Orica Ltd	17,917	2.6%
15. Westfield Group	17,330	2.5%
16. AXA Asia Pacific Holdings Ltd	15,675	2.3%
17. Suncorp Metway Ltd	15,480	2.2%
18. Perpetual Trustees Australia Ltd	14,630	2.1%
19. QBE Insurance Group Ltd	14,350	2.1%
20. St George Bank Ltd	13,198	1.9%
21. Alesco Corporation Ltd	11,933	1.7%
22. Southern Cross Broadcasting (Aust) Ltd	10,500	1.5%
23. Iluka Resources Ltd	9,825	1.4%
24. Australian Gas Light Company Ltd	9,630	1.4%
25. Bluescope Steel Ltd	9,540	1.4%
	577,409	83.3%
Total Investments at Market Value and Cash	692,753	



Charles Goode
Chairman



Corporate Governance Statement

The Company adopted, in July 2003, corporate governance principles in accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". Any material departures from the recommendations are referred to in this statement.

1. Accountability and Responsibility

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

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

2. Composition

The Board currently comprises 5 directors. The Company's constitution requires 3 to 5 directors. The Company has no executives or executive directors. If a vacancy arises the Nomination and Remuneration Committee chooses the best available candidate after wide, and if necessary professional, consultation for appointment and subsequent consideration at the next Annual General Meeting.

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

3. Operation

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

4. Delegation

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



Corporate Governance Statement (Continued)

5. Director's Terms of Appointment, Remuneration and Performance

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

Each director appointed before 1 July 2003 is entitled to receive a retirement benefit set out in an agreement, the terms of which have been approved by shareholders in Annual General Meeting. Fees for directors appointed after that date take into account the absence of a retirement agreement.

Directors have resolved to seek shareholder approval at the 2006 Annual General Meeting to terminate the Directors Retirement Agreements and give directors the alternative of converting accrued entitlements to either an equivalent cash benefit on retirement, with interest, or the Company's shares (to be held under a Share Plan until retirement). Directors' fees to be paid thereafter would be adjusted in line with market practice and independent advice.

Each director is entitled to enter a Deed of Access, Indemnity and Insurance with the Company and to be covered by the Company's Directors and Officers Liability Insurance.

The duties of directors are as set out in the Corporations Law and in this statement. In addition to board meetings directors are expected to attend, for no additional fee, 2 committee meetings per year where applicable. They are expected to make a pro-active contribution to the management of the Company's investment portfolio by reading, research, and information collected outside of board meetings.

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

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

6. Board Committees

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

The Audit Committee has an independent Chairman and a majority of independent directors. All members are non-executive. It is considered to have sufficient relevant expertise and to comply with the Australian Stock Exchange Corporate Governance Council's "Best Practice Recommendations" and Australian Stock Exchange listing rule 12.7.

The Nomination and Remuneration Committee considers and makes recommendations to the Board regarding Board composition and remuneration of the directors and the Company Secretary.

7. Disclosure Procedures

The Company has established procedures to ensure compliance with the Australian Stock Exchange listing rule disclosure requirements including monthly disclosure of the Company's net tangible asset backing per share.



8. Shareholder Communication

The Company communicates with shareholders through:

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

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

9. Risk Management

The Audit Committee reviews the Company's risk management procedures half yearly.

10. Ethical Conduct

The Company has no employees other than directors and the Company Secretary. Each director and the Company Secretary is expected to adopt high ethical standards in acting for the Company and in the interests of the shareholders. Directors are required to disclose potential conflicts of interest and to refrain from involvement in Board decisions, or leave the room, during discussion of the conflicted matter. The directors and the Company Secretary are aware of the Corporations Law regarding dealing in securities in which they possess market sensitive information. The Company's net tangible asset backing per share is announced monthly to the Australian Stock Exchange and the Company has procedures to ensure compliance with Australian Stock Exchange continuous disclosure requirements.



Directors' Report

The directors present their report together with the financial report of Australian United Investment Company Limited for the year ended 30 June 2006 and the auditors' report thereon.

Directors

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

Charles B. Goode AC, B.Com. (Hons), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon).
Chairman, Appointed April 1990
Age 67

Mr Goode has been Chairman of the Company since 1994. He is Chairman of Australia and New Zealand Banking Group Ltd, Woodside Petroleum Ltd, Diversified United Investment Limited and The Ian Potter Foundation Ltd.

Graeme E. Moir B.Com (Univ. of NZ), ACA (NZ), ACIS.
Director, Appointed March 1976
Age 74

Mr Moir has had 44 years experience in the share investment field. He is the principal of the investment management firm, Moir's Investment Service Pty. Ltd., is a Director of Graeme Moir and Associates Pty. Ltd. and Diversified United Investment Limited.

Dr P. John B. Rose AO, BCom (NZ), DipEc (Camb), PhD(Melb). Hon D.Bus (Melb).
Director, Appointed April 2000
Age 70

Dr Rose is a Governor of The Ian Potter Foundation Ltd. He was the Sidney Myer Professor of Commerce and Business Administration of the University of Melbourne and the Director of The Melbourne Business School, Advisor to the Prime Minister, Commissioner of the City of Melbourne, and a Director of Woodside Petroleum Ltd.

Peter J. Wetherall B.E. Hons (Qld), B.A. Hons (Oxon)
Director, Appointed November 2001
Age 50

Mr Wetherall has 26 years experience in the Australian share market as a stockbroker and funds manager. He is the founder and Managing Director of Wallara Asset Management Pty Ltd. He is Chairman of the Company's Audit Committee.

Ronald R. Dewhurst
Director, Appointed June 2005
Age 54

Mr Dewhurst is Chief Executive of IOOF Group. He has over 30 years domestic and international experience in investment and financial services management. He is a Director of IOOF Holdings Ltd, Acctrak21 International Ltd, Breast Cancer Network of Australia, National Gallery of Victoria, Orchard Petroleum Ltd and Pride Capital Partners LLC.



Company Secretary

Andrew J. Hancock FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)
Company Secretary, Appointed 11 October 1995
Age 54

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

Principal Activity of the Company

The principal activity of the Company is that of an investment company which seeks, through portfolio management, to manage its risk and improve its income from dividends and other income over the longer term.

The Company's funds are invested predominantly in the shares of companies listed on the Australian Stock Exchange and its portfolio had a market value (including cash management trust investments and commercial bills) of \$692,752,730 as at 30 June 2006 (2005: \$547,255,846). The net tangible asset backing of the Company's ordinary shares at 30 June 2006 was \$7.44 (2005: \$6.01). This net asset backing calculation is based on investments at market value and is after provision for tax on net realised gains, before tax on unrealised gains and before the final dividend. The Company is a long term investor and does not intend disposing of its portfolio. However if estimated tax on unrealised portfolio gains were to be deducted, the net tangible asset backing would be \$6.15 (2005: \$5.09).

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

Results and Review of Operations

The operating profit after income tax before net realised gains on investment portfolio was \$22,085,534 compared to \$18,567,725 in the previous year - an increase of 18.9%. If special dividends received are disregarded, operating profit before net realised gains on the investment portfolio increased 15.0%. The operating profit after tax includes \$2,268,674 of special dividends and distributions received including \$872,520 from Rio Tinto Ltd and \$600,000 from Suncorp-Metway Ltd. In 2005, the operating profit included \$1,338,850 of special dividends and distributions and distributions received including \$315,000 from Macquarie Infrastructure Group Ltd and \$400,000 from Perpetual Trustees Ltd.

The basic and diluted earnings per share before net realised gains on investment portfolio and special dividends was 23.6 cents compared to 20.9 cents for the previous year.

The Company incurred expenses (excluding finance costs) of \$812,317 (2005: \$776,001) which is equivalent to 0.13% (2005: 0.16%) of the average market value of the portfolio.

Bank Borrowings were \$65 million at the end of the financial year (previous year \$50 million) amounting to around 9% of the investment portfolio at market values.

Directors' Report (Continued)

Dividends

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

Paid or declared during the year

A final dividend in respect of the year ended 30 June 2005 of 9.0 cents per share fully franked paid on 11 October 2005 \$7,500,510

An interim dividend in respect of the year ended 30 June 2006 of 8.5 cents per share fully franked paid on 12 April 2006. \$7,152,268

Paid or declared after end of year

A final dividend in respect of the year ended 30 June 2006 of 11.0¢ per share fully franked payable on 16 October 2006 \$9,305,772

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 Committee Meetings		Remuneration & Nomination Committee Meetings	
	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible
Charles B Goode	9	9	2 *	2 *	2	2
Graeme E Moir	9	9	2	2	2	2
P John Rose	8	9	2	2	2	2
Peter J Wetherall	9	9	2	2	2	2
Ron R Dewhurst	8	9	0	2	2	2

* In attendance – not a Committee member.

Directors' Interests

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

	SHARES	
	1	2
Charles B Goode	53,101	674,066
Graeme E Moir	70,000	-
P John Rose	59,484	-
Peter J Wetherall	10,000	-
Ron Dewhurst	-	-

1. Beneficial in own name

2. Held by proprietary company or superannuation fund in which the director has a beneficial interest.

Except as stated above, no director -

- has any relevant interest in shares of the Company or a related body corporate;
- has any relevant interests in debentures of, or interests in a registered scheme made available by, the company or a related body corporate;
- 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;
- 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 or interests in a registered scheme made available by the Company or a related body corporate.

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 \$4,675 for these services.

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

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

Directors' Report (Continued)

Remuneration report (audited)

Non-executive Directors	Directors' Fees ⁽¹⁾		Retirement benefits		Total	
	\$		\$		\$	
	2006	2005	2006	2005	2006	2005
Charles Goode	90,000	78,000	20,000	108,000	140,440	154,000
Graeme Moir	45,000	39,000	10,000	38,000	70,220	77,000
P John Rose	45,000	39,000	7,463	22,000	70,220	77,000
Peter Wetherall	45,000	39,000	7,462	22,000	70,220	77,000
Ron Dewhurst	57,150	4,128	-	-	-	4,128
Total	282,150	199,128	44,925	190,000	351,100	389,128

(1) Directors' fees include superannuation contributions.

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and to effect 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 general meeting.

Each director is entitled to enter a Deed of Access, Indemnity and Insurance with the Company and to be covered by the Company's Directors and Officers Liability Insurance. Amounts disclosed for directors' remuneration exclude insurance premiums of \$38,720 paid by the Company in respect of Directors' and Officers' liability insurance as the contracts do not specify premiums paid in respect of individual directors and officers. Refer to Note 18 of the financial statements for information relating to the insurance contracts.

Each director appointed before 1 July 2003 is entitled to receive a retirement benefit set out in an agreement, the terms of which have been approved by shareholders in general meeting. Under the retirement scheme, for each three years of service a director will receive one year of directors' fees up to a maximum number of completed years of service of fifteen. Fees for directors appointed after 1 July 2003 take into account the absence of a retirement agreement.

At the date of this report the directors have resolved to seek shareholder approval at this year's Annual General Meeting to terminate the Directors Retirement Agreements and give directors the alternative of converting accrued entitlements to that date to either an equivalent cash benefit on retirement, with interest, or the Company's shares (to be held under a Share Plan until retirement). Directors' fees to be paid thereafter would be adjusted in line with market practise and independent advice.

The Company's liability for directors' retirement benefits, which is based on the number of years of service provided at the balance date, has been included in the provision for Directors' Retirement Benefits.

The Company Secretary, Mr Andrew J Hancock, received \$56,925 (2005: \$55,000) for services provided to the Company.



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.

Indemnification

Details of directors' indemnification are set out in Note 18 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 14 and forms part of the Directors' report for the year ended 30 June 2006.

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

Melbourne, 18th August 2006

Signed in accordance with a resolution of the Directors:



C B Goode
Director

Lead Auditor's Independence Declaration



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

To: the directors of Australian United Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 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 in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Michelle Somerville'.

Michelle Somerville
Partner

Melbourne

18 August 2006

Income Statement for the Year Ended 30 June 2006

	Note	2006 \$	2005 \$
Revenue from investment portfolio	4	25,714,992	21,966,396
Administration and other expenses		(812,317)	(776,001)
Finance expenses		(3,137,445)	(2,848,265)
Operating profit before income tax expense and net realised gains on investment portfolio		21,765,230	18,342,130
Income tax benefit *	6(a)	320,304	225,595
Net operating profit before net realised gains on investment portfolio		22,085,534	18,567,725
Net realised gains on investment portfolio transferred from revaluation reserve		10,194,403	5,744,248
Income tax expense thereon *	6(a)	(3,190,452)	(366,712)
		7,003,951	5,377,536
Profit for the year		29,089,485	23,945,261
Basic and diluted earnings per share (cents)	7	34.6	29.0
Basic and diluted operating earnings per share (cents) before realised gains on investment portfolio is shown in Note 7.			
* Total income tax expense	6(a)	(2,870,148)	(141,117)

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

Balance Sheet as at 30 June 2006

	Note	2006 \$	2005 \$
CURRENT ASSETS			
Cash assets		1,536,001	3,399,858
Receivables	9	3,825,670	3,361,165
Other	11	37,341	-
TOTAL CURRENT ASSETS		5,399,012	6,761,023
NON-CURRENT ASSETS			
Investment portfolio	10	691,216,729	543,855,988
Deferred tax assets	6(b)	169,830	192,727
TOTAL NON-CURRENT ASSETS		691,386,559	544,048,715
TOTAL ASSETS		696,785,571	550,809,738
CURRENT LIABILITIES			
Payables	12	75,785	79,675
Current tax liability	6(a)	2,759,201	-
TOTAL CURRENT LIABILITIES		2,834,986	79,675
NON-CURRENT LIABILITIES			
Borrowings – interest bearing	13	64,002,605	49,393,740
Deferred tax liability	6(b)	109,522,673	76,624,004
Employee benefits	15	566,100	440,000
TOTAL NON-CURRENT LIABILITIES		174,091,378	126,457,744
TOTAL LIABILITIES		176,926,364	126,537,419
NET ASSETS		519,859,207	424,272,319
EQUITY			
Issued capital	16(a)	166,690,421	158,664,087
Revaluation reserve	16(b)	263,164,416	190,040,569
Realisation reserve	16(b)	49,256,496	43,502,665
Retained earnings	16(b)	40,747,874	32,064,998
TOTAL EQUITY		519,859,207	424,272,319

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

Statement of Changes in Equity for the Year Ended 30 June 2006

	Note	2006 \$	2005 \$
Total equity at the beginning of the year		424,272,319	339,209,602
Direct equity adjustments			
Revaluation of investment portfolio	16(b)	105,934,466	96,439,594
Provision for tax on unrealised gains	16(b)	(32,810,619)	(30,177,593)
Total direct equity adjustments		73,123,847	66,262,001
Profit for the year	16(b)	29,089,485	23,945,261
Total direct equity adjustments and profit for the year		102,213,332	90,207,262
Transactions with shareholders			
Dividend reinvestment plan	16(b)	8,026,334	8,398,131
Dividends paid from retained profits	16(b)	(13,402,658)	(13,542,676)
Dividends paid from realisation reserve	16(b)	(1,250,120)	-
		(6,626,444)	(5,144,545)
Total equity at the end of the year		519,859,207	424,272,319

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

Statement of Cash Flows for the Year Ended 30 June 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Interest received		381,031	161,832
Dividends and trust distributions received		24,872,338	21,146,875
Other receipts		-	1,399
Finance costs paid		(3,528,582)	(2,921,934)
Administration and other expenses paid		(730,337)	(522,196)
Income taxes paid		-	5,730
Net cash flow from operating activities	19	20,994,450	17,871,706
Cash flows from investing activities			
Proceeds from sale of investments		42,688,502	29,500,552
Purchases of investments		(73,920,365)	(52,949,045)
Net cash flow from investing activities		(31,231,863)	(23,448,493)
Cash flows from financing activities			
Dividends paid (excluding dividend reinvestment plan)		(6,626,444)	(5,144,545)
Borrowings		15,000,000	13,000,000
Net cash flow from financing activities		8,373,556	7,855,455
Net increase/(decrease) in cash held		(1,863,857)	2,278,668
Cash and cash equivalents at 1 July		3,399,858	1,121,190
Cash and cash equivalents at 30 June	19	1,536,001	3,399,858

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

Notes to the Financial Statements for the Year Ended 30 June 2006

1. Statement of significant accounting policies

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

The financial report was authorised for issue by the directors on 18 August 2006.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standard Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards (AASBs) adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial report of the Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the Company's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 3.

(b) Basis of preparation

The financial report is presented in Australian dollars. The following Accounting Standards and amendments were available for early adoption but have not been applied by the Company in these financial statements:

AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods on or after 1 January 2007.

The Company plans to adopt AASB 7, AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the amendment are concerned only with disclosures.

The financial report is prepared on an historical cost basis except that financial instruments classified as available-for-sale are stated at their fair value.

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing the opening AIFRS balance sheet as 1 July 2004 for the purposes of the transition to Australian Accounting Standards - AIFRS.

(c) Investments

The Company is a long term investor. Under AIFRS, investments are classified as available-for-sale. After initial recognition at fair value (being cost), investments are measured at fair value.

Unrealised gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement as a realised gain or loss.

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

Under AIFRS, the revaluation adjustment relating to long-term investments standing in the Revaluation Reserve at the time of sale, which was previously transferred directly to the Realisation Reserve (formerly the Investment Fluctuation Reserve) is now included in the net profit of the Company before being transferred to the Realisation Reserve.

The Company reviews its investment portfolio at each balance sheet date to determine whether there is any objective evidence of impairment.

When a decline in the fair value of an investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is immediately recognised in profit or loss.

Any subsequent reversal of an impairment loss is not reversed through profit or loss.

(d) Revenue from investment portfolio

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

(e) Taxation

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

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as 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 equity is transferred to Net Profit and adjusted to actual tax expense. The associated deferred tax liability is similarly adjusted and transferred to 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.

(g) Provision for directors' retirement

The Company has recognised a provision for directors' retirement in accordance with the requirements of AASB 2 Share-based Payment and AASB 119 Employee Benefits. The provision is presently calculated as the estimated obligation due and payable to each director in accordance with the approved Director retirement plan.

(h) Comparatives

As stated in significant accounting policies note 1(a), these are the Company's first financial statements prepared in accordance with AIFRS.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Company's date of transition).

In preparing its opening AIFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (AGAAP/ previous GAAP). An explanation of how the transition from previous GAAP (AGAAP) to AIFRS has affected the Company's financial position, financial performance and cash flows is set out in Note 3.

2. Changes in Accounting Policy

There have been significant changes in the accounting policies of the company from those adopted at 30 June 2005 (see note 1 and 3).

3. Explanation of Transition to Australian Equivalents to IFRS

An explanation of how the transition from previous AGAAP to AIFRSs has affected the entity's financial position, financial performance and cash flows is set out below.

(a) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Year ended 30 June 2005	Date of transition to AIFRS 1 July 2004
	\$	\$
Total equity under AGAAP	500,667,204	385,426,894
Adjustments to equity:		
Providing for tax on unrealised gains ⁽ⁱ⁾	(76,394,885)	(46,217,292)
Total equity under AIFRS	424,272,319	339,209,602

(i) In accordance with AIFRS, the Company has recognised an additional deferred tax liability for the capital gains potentially payable on unrealised gains in the investment portfolio. This liability has been offset against the unrealised gains on the investment portfolio recognised in the Revaluation Reserve.

(b) Reconciliation of the profit or loss reported under previous AGAAP to that under AIFRS

	Year ended 30 June 2005
	\$
Profit after tax as previously reported	18,338,606
Adjustments to profit:	
Net realised gains on Investment Portfolio ⁽ⁱ⁾	5,744,248
Income tax related to net realised gains on Investment Portfolio	(366,712)
Impact of tax on deferred trust distributions now recognized directly in equity	229,119
Profit after tax under AIFRS	23,945,261

(i) In accordance with AIFRS, net realised gains on investment portfolio are now included in the Net Profit of the Company by way of transfer from the Revaluation Reserve. Previously these amounts were transferred directly from the Revaluation Reserve to the Realisation Reserve.

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

(c) Cash Flow Statements

There are no material changes between the cash flow statements presented under AIFRS and those presented under previous AGAAP.

4. Revenue and Expenses

	2006 \$	2005 \$
<i>(a) Revenue</i>		
Dividends received or due and receivable	23,910,007	20,695,395
Interest received or due and receivable	381,029	159,922
Sub-underwriting income	-	1,399
Trust distributions received or due and receivable	1,423,956	1,109,680
	25,714,992	21,966,396
<i>(b) Expenses</i>		
Provision for directors' retirement benefits	126,100	190,000
Finance costs		
Interest expenses	3,127,861	2,842,878
Other	9,584	5,387

5. Auditor's Remuneration

During the year, KPMG, the Company's auditor, received \$34,650 for audit services (2005: \$33,880) and \$4,675 for other services (2005: \$7,865).

6. Taxation

	2006 \$	2005 \$
<i>(a) Income Tax Expense</i>		
<i>(i) Recognised in the income statement</i>		
Current tax expense		
Current Year	2,760,045	6,163
Adjustments for prior years	(844)	(6,163)
	2,759,201	-
Deferred Tax Expense		
Temporary differences	110,947	141,117
	110,947	141,117
Total income tax expense in income statement	2,870,148	141,117

	2006 \$	2005 \$
(ii) Reconciliation between tax expense and pre-tax net profit		
Prima facie tax expense calculated		
At 30% on the profit for the year	9,587,890	7,225,913
Increase in tax expense due to:		
Franking credits gross-up on dividends received	2,832,803	2,270,093
Sundry items	217,547	-
Decrease in tax expense due to:		
Sundry items	-	(220,661)
Tax Deferred revenue received	(278,772)	(229,119)
Franking credits on dividend received	(9,442,677)	(7,566,976)
Effect of tax losses utilised	(45,799)	(1,331,970)
Tax expense on operating profit	2,870,992	147,280
Under/ (over) provided in prior years	(844)	(6,163)
Income Tax Expense attributable to profit for the year	2,870,148	141,117
(iii) Deferred tax recognised directly in equity		
Increase/(decrease) in provision for tax on unrealised gains on investment portfolio	32,810,619	30,177,593

(b) *Deferred Tax Assets and Liabilities*

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2006 \$	2005 \$	2006 \$	2005 \$
Revaluation reserve – Provision for tax on unrealised gains on investment portfolio	-	-	(109,434,623)	(76,624,004)
Other	-	14,928	(88,050)	-
Provision for directors retirement	169,830	132,000	-	-
Tax value of loss carry-forwards	-	45,799	-	-
Tax assets/(liabilities)	169,830	192,727	(109,522,673)	(76,624,004)
Net tax assets/(liabilities)	169,830	192,727	(109,522,673)	(76,624,004)

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

7. Earnings Per Share

	2006 cents	2005 cents
Basic earnings per share	34.6	29.0
Basic operating earnings per share before net realised gains on investment portfolio	26.3	22.5
Basic operating earnings per share before special dividends and net realised gains on investment portfolio.	23.6	20.9

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

Profit reconciliation used in the calculation of earnings per share

	2006 \$	2005 \$
Profit for the year	29,089,485	23,945,261
Net realised gains on investment portfolio	(7,003,951)	(5,377,536)
Special dividends	(2,268,674)	(1,338,850)
Net profit before net realised gains on investment portfolio and special dividends	19,816,860	17,228,875

Weighted average number of ordinary shares

Issued ordinary shares at 1 July	83,341,329	81,629,164
Effect of shares issued in October 2005	576,390	674,103
Effect of shares issued in April 2006	98,180	169,619
Weighted average number of ordinary shares for the year	84,015,899	82,472,886

8. Dividends

Dividends recognised in the current year by the Company are:

(i) 2005 final dividend of 9.0 cents per share (2004: 8.5 cents) fully franked paid 16 October 2005	7,500,510	6,938,278
(ii) 2006 interim dividend of 8.5 cents per share (2005: 8.0 cents) fully franked paid 12 April 2006	7,152,268	6,604,398
	14,652,778	13,542,676

Subsequent to reporting date:

Since 30 June 2006, the directors have declared the following dividend payable on 16 October 2006:

- Final dividend of 11 cents per share fully franked	9,305,772	7,500,510
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The final dividend will contain a Listed Investment Company capital gain dividend of 8.5 cents per share.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2006.

Dividend Franking Account:

The balance of the Franking Account at 30 June 2006 is \$15,747,152 (2005: \$9,729,495) after adjusting for:

- (a) franking credits that will arise from the current income tax liability
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- (c) franking credits that the entity may be prevented from distributing in subsequent years

After allowing for the final 2006 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$11,758,964 (2005: \$6,514,901).

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

LIC Capital Gain Account:

The balance of the Listed Investment Company (LIC) Capital Gain Account at 30 June 2006 was \$7,445,652 (2005: \$876,347). 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.

After allowing for the final dividend the balance of the LIC Capital Gain Account at 30 June 2006 would be \$254,828.

9. Receivables

	2006 \$	2005 \$
Current		
Dividends Receivable	3,355,500	3,154,500
Trust Distributions Receivable	463,750	203,125
Other	6,420	3,540
	3,825,670	3,361,165

10. Investments

Non-Current		
Investments quoted on prescribed stock exchanges (at fair value)	691,216,729	543,855,988

11. Other Assets

Current		
Prepayments	37,341	-

12. Payables

Current		
Trade Creditors	75,785	79,675

13. Interest Bearing Liabilities

Non-Current		
Bills payable – Secured	64,002,605	49,393,740

The face value of the drawn facility is \$65 million (2005: \$50 million). The amounts disclosed above are net of prepaid interest.

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

14. Financing Arrangements

	Note	2006 \$	2005 \$
The Company has access to the following lines of credit:			
Total facility available			
Commercial Bill Facility – Secured		65,000,000	50,000,000
Facilities utilised at balance date			
Commercial Bill Facility – Secured		65,000,000	50,000,000

15. Employee Benefits

Non-Current			
Directors' retirement allowance	17	566,100	440,000

16. Capital and Reserves

(a) Issued Capital

Issued and paid-up share capital			
84,597,931 (2005: 83,341,329) ordinary fully paid shares		166,690,421	158,664,087
Movements in issued capital			
Balance at beginning of the financial year		158,664,087	150,265,956
Shares issued			
Dividend re-investment plan (i)		8,026,334	8,398,131
		166,690,421	158,664,087

(i) In respect of the final dividend paid in October 2005 802,986 ordinary shares were issued at \$5.90 each and in respect of the interim dividend paid in April 2006 453,616 ordinary shares were issued at \$7.25 each.

(b) Reconciliation of movements in capital and reserves

	Issued Capital \$	Revaluation Reserve \$	Realisation Reserve \$	Retained Profits \$	Total \$
As at 1 July 2004	150,265,956	123,778,568	38,125,129	27,039,949	339,209,602
Revaluation of investment portfolio net of realised gains	-	96,439,594	-	-	96,439,594
Provision for tax on unrealised gains	-	(30,177,593)	-	-	(30,177,593)
Total direct equity adjustments	150,265,956	190,040,569	38,125,129	27,039,949	405,471,603
Profit for the year	-	-	-	23,945,261	23,945,261
	150,265,956	190,040,569	38,125,129	50,985,210	429,416,864
Dividend reinvestment plan	8,398,131	-	-	-	8,398,131
Dividends paid	-	-	-	(13,542,676)	(13,542,676)
Transfers between reserves	-	-	5,377,536	(5,377,536)	-
As at 30 June 2005	158,664,087	190,040,569	43,502,665	32,064,998	424,272,319
As at 1 July 2005	158,664,087	190,040,569	43,502,665	32,064,998	424,272,319
Revaluation of investment portfolio net of realised gains	-	105,934,466	-	-	105,934,466
Provision for tax on unrealised gains	-	(32,810,619)	-	-	(32,810,619)
Total direct equity adjustments	158,664,087	263,164,416	43,502,665	32,064,998	497,396,166
Profit for the year	-	-	-	29,089,485	29,089,485
	158,664,087	263,164,416	43,502,665	61,154,483	526,485,651
Dividend reinvestment plan	8,026,334	-	-	-	8,026,334
Dividends paid	-	-	(1,250,120)	(13,402,658)	(14,652,778)
Transfers between reserves	-	-	7,003,951	(7,003,951)	-
As at 30 June 2006	166,690,421	263,164,416	49,256,496	40,747,874	519,859,207

17. Directors' Remuneration

Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report.

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

18. Related Parties

Directors and director-related entities

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

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

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, insuring them against liabilities, costs and expenses arising out of conduct which does not involve a willful breach of duty. This insurance premium covers the period 18 June 2006 to 18 June 2007.

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

Directors' Holdings of Shares

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

	SHARES June 2006		SHARES June 2005	
	1	2	1	2
Charles B Goode	53,101	674,066	51,697	656,244
Graeme E Moir	70,000	-	70,000	-
Peter J Wetherall	10,000	-	10,000	-
P John B Rose	59,484	-	57,862	-
Ron R Dewhurst	-	-	-	-

1. Beneficial in own name
2. Held by proprietary company or superannuation fund in which the Director has a beneficial interest

The movement in directors' holdings of ordinary shares resulted from purchases on the open market and participation in the dividend re-investment program.

19. Notes to the Statement of Cash Flows

	2006 \$	2005 \$
<i>Reconciliation of Cash</i>		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash at bank	2,061	2,593
Units in Cash Management Trusts and Deposits at call	1,533,940	3,397,265
	1,536,001	3,399,858
Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Operating profit after tax	29,089,485	23,945,261
Add/(less) net realised capital gains	(7,003,951)	(5,377,536)
Net cash provided by operating activities before changes in assets and liabilities	22,085,534	18,567,725
Add/(less) changes in assets and liabilities:		
(Increase)/decrease in dividend receivable	(201,000)	(475,075)
(Increase)/decrease in interest receivable	2	1,902
(Increase)/decrease in distributions receivable	(260,625)	(183,125)
(Increase)/decrease in other debtors	(2,880)	6,004
(Increase)/decrease in deferred tax assets	22,897	(225,595)
Increase/(decrease) in deferred tax liability	88,050	-
Increase/(decrease) in current tax	(431,251)	5,730
Increase/(decrease) in accrued expenses	(3,899)	36,783
(Increase) / decrease prepayments	(428,478)	(52,643)
Increase / (decrease) in provisions	126,100	190,000
Net cash provided by operating activities	20,994,450	17,871,706

Notes to the Financial Statements for the Year Ended 30 June 2006 (Continued)

20. Additional Financial Instruments Disclosure

Interest Rate Risk

The Company's exposure to interest rate risk as at 30 June 2006 and the effective weighted average interest rate for classes of financial assets which bear interest is set out below.

	Note	Floating Interest Rate \$	Total \$
<i>Financial Assets – 2006</i>			
Cash	19	1,536,001	1,536,001
Weighted Average Interest Rate		5.23%	
<i>Financial Assets – 2005</i>			
Cash	19	3,399,858	3,399,858
Weighted Average Interest Rate		4.76%	

The Company has secured borrowing facilities in place with the National Australia Bank Ltd totalling \$65,000,000 (2005: \$50,000,000) as follows:

Amount	Maturity	Interest Rate
\$13,000,000	31 March 2008	Floating *
\$10,000,000	31 March 2009	Fixed 5.98%
\$3,000,000	31 March 2009	Floating *
\$10,000,000	31 March 2010	Fixed 5.99%
\$3,000,000	31 March 2010	Floating *
\$10,000,000	31 March 2011	Fixed 6.00%
\$3,000,000	31 March 2011	Floating *
\$10,000,000	31 March 2012	Fixed 6.02%
\$3,000,000	31 March 2012	Floating *

* Normally rolled (reset) on a 90 day basis.

Credit Risk Exposure

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Company minimises concentration of credit risk by undertaking transactions with a number of counterparties which are recognised banks, cash management trusts or members of the Australian Stock Exchange.



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 current quoted market closing prices at balance date. No adjustment for transaction costs necessary to realise the assets has been included as these are deemed to be immaterial. The net fair value of investments is set out in note 10.

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

21. Segment Reporting


The Company operates as an investment company in Australia.

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 15 to 31, and the remuneration disclosures that are contained in the Remuneration report on page 12 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 and consolidated entity as at 30 June 2006 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 and the Corporations Regulations 2001; and
 - (b) The remuneration report on page 12 of the Directors' Report complies with Australian Accounting Standard AASB 124 Related Party Disclosures.
 - (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 2006.

Dated at Melbourne this 18th day of August 2006.

Signed in accordance with a resolution of the directors.



C B Goode
Director

Independent Audit Report



Independent audit report to the members of Australian United Investment Company Limited

Scope

We have audited the financial report of Australian United Investment Company Limited (“the Company”) for the financial year ended 30 June 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 21 and the directors’ declaration. We have audited the disclosures made by the Company, as permitted by the *Corporations Regulations 2001*, about the remuneration of directors and executives (“remuneration disclosures”), including those required by Australian Accounting Standard AASB 124 *Related Party Disclosures* (“AASB 124”), under the heading “Remuneration report” on page 12 of the directors’ report and not in the financial report. The Company’s directors are responsible for the financial report and the Remuneration report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report and the remuneration report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s financial position, and performance as represented by the results of its operations and its cash flows and whether the remuneration disclosures comply with AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion:

- (1) the financial report of Australian United Investment Company Limited is in accordance with:
 - a) the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the Company’s financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
 - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - b) other mandatory financial reporting requirements in Australia; and
- (2) the remuneration report on page 12 of the directors’ report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Michelle Somerville
Partner

Melbourne

18 August 2006

Additional Information

Distribution of shareholders as at 31 July 2006.

Category Holders – Ordinary shares

	Units Held	No of Holders	%
1-1,000	94,154	176	0.11
1,001-5,000	1,938,146	667	2.29
5,001-10,000	2,628,614	354	3.11
10,001 and 100,000	9,339,902	375	11.04
100,001 and over	70,597,115	37	83.45
	84,597,931	1,609	100.00

There were 8 ordinary shareholders holding less than a marketable parcel (70 shares) at 31 July 2006.

Substantial Shareholders

The number of shares held by substantial shareholders and their associates as at 31 July 2006 are set out below :

Substantial Shareholder	Number of Shares to which Substantial Shareholder is "entitled" Ordinary
The Ian Potter Foundation Limited and Dundee Trading Pty Ltd	35,015,736
Argo Investments Ltd	14,752,075
Lady Primrose Catherine Potter, Primrose Properties Pty Ltd and Decerna Pty Ltd	7,723,293

Voting Rights

All ordinary shares carry equal voting rights.

Twenty Largest Equity Security Holders - Ordinary

The twenty largest shareholders, listed below as at 31 July 2006, hold 68,305,363 ordinary shares which is 80.76% of the issued capital.

Ordinary Shares

Shareholder Name	No. of Shares	% Held
1. The Ian Potter Foundation Ltd	32,727,047	38.69
2. Argo Investments Ltd	14,752,075	17.44
3. Primrose Properties Pty Ltd	6,413,795	7.58
4. Robin Bernice Potter	5,475,000	6.47
5. Dundee Trading Pty Ltd	2,288,689	2.71
6. The Miller Foundation Ltd	1,570,000	1.86
7. Lady Primrose Catherine Potter	750,000	0.89
8. Decerna Pty Ltd	559,498	0.66
9. Beta Gamma Pty Ltd	548,510	0.65
10. Daryl Albert Dixon & Katherine Dixon	529,928	0.63
11. Pardis Pty Ltd	472,153	0.56
12. UBS Private Clients Australia Nominees Pty Ltd	464,310	0.55
13. Matluc Nominees Pty Ltd	288,443	0.34
14. St Hilda's College Nominees Pty Ltd	253,778	0.30
15. Duesburys Services Pty Ltd <Carolyn Anne Parker Bowles>	224,850	0.27
16. Collier Custodian Corporation	212,500	0.25
17. Lorna Elizabeth Pitt	200,787	0.24
18. Chickenfeed Pty Ltd	196,500	0.23
19. Mrs Sheila Clare Audas Pitt	190,000	0.22
20. Mr J F Henry, Mr J M Lester & Dr G L Blackman	187,500	0.22
	68,305,363	80.76

Brokerage Paid

The amount of brokerage paid or charged to the Company during the financial year ended 30 June 2006 totalled \$135,786 (2005: \$117,007). None of that brokerage was paid to any stock or sharebroker, or any employee or nominee of any stock or share broker, who is an officer of the Company.

List of Investments as at 30 June 2006

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

	Market Value \$	30/6/2006 % of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustment	30/6/2005 Units Held
<i>Oil & Gas (6.2%)</i>					
Woodside Petroleum Ltd	37,400,000	5.4	850,000	30,000 purchased	820,000
Origin Energy Ltd	5,888,000	0.8	800,000	400,000 purchased	400,000
<i>Chemicals (2.6%)</i>					
Orica Ltd	17,917,500	2.6	750,000	50,000 purchased	700,000
<i>Construction Material (0.9%)</i>					
Boral Ltd	2,442,000	0.4	300,000	-	300,000
CSR Ltd	3,685,000	0.5	1,100,000	-	1,100,000
<i>Containers & Packaging (0.0%)</i>					
Arcor Ltd	-	-	-	800,000 sold	800,000
<i>Metals & Mining (21.4%)</i>					
Alumina Ltd	29,362,500	4.2	4,350,000	500,000 purchased	3,850,000
BHP Billiton Ltd	53,650,000	7.7	1,850,000	175,000 purchased	1,675,000
Bluescope Steel Ltd	9,540,000	1.4	1,200,000	200,000 purchased	1,000,000
Iluka Resources Ltd	9,825,000	1.4	1,500,000	200,000 purchased	1,300,000
Rio Tinto Ltd	46,680,000	6.7	600,000	-	600,000
WMC Resources Ltd	-	-	-	2,500,000 sold	2,500,000
<i>Paper & Forest Products (0.0%)</i>					
Paperlinx Ltd	-	-	-	1,000,000 sold	1,000,000
<i>Building Products (0.3%)</i>					
GWA International Ltd	2,177,000	0.3	700,000	-	700,000
<i>Industrial Conglomerates (3.1%)</i>					
Wesfarmers Ltd	21,198,000	3.1	600,000	-	600,000
<i>Machinery (0.0%)</i>					
Crane Group Ltd	-	-	-	400,000 sold	400,000
<i>Trading Co & Distributors (1.7%)</i>					
Alesco Corporation Ltd	11,932,800	1.7	1,320,000	-	1,320,000



	Market Value \$	30/6/2006 % of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustment	30/6/2005 Units Held
<i>Commercial Services Supplies (3.0%)</i>					
Brambles Industries Ltd	19,800,000	2.9	1,800,000	200,000 purchased	1,600,000
ABC Learning Centres Ltd	960,000	0.1	150,000	150,000 purchased	-
<i>Transportation Infrastructure (1.9%)</i>					
Macquarie Airports	1,535,000	0.2	500,000	-	500,000
Macquarie Communications Infrastructure Group	2,955,000	0.4	500,000	500,000 purchased	-
Macquarie Infrastructure Group	3,360,000	0.5	1,000,000	250,000 purchased	750,000
Transurban Group	5,212,500	0.8	750,000	500,000 purchased	250,000
<i>Hotels Restaurants & Leisure (4.6%)</i>					
Tabcorp Holdings Ltd	24,320,000	3.5	1,600,000	-	1,600,000
Unitab Ltd	7,380,000	1.1	500,000	-	500,000
<i>Media (4.3%)</i>					
APN News & Media Ltd	2,540,000	0.4	500,000	50,000 purchased	450,000
Amalgamated Holdings Ltd	3,896,000	0.6	800,000	-	800,000
News Corporation Inc Class B Common CDI	6,800,000	1.0	250,000	-	250,000
Southern Cross Broadcasting (Aust) Ltd	10,500,000	1.5	1,000,000	200,000 purchased	800,000
Ten Network Holdings Ltd	1,320,000	0.2	500,000	500,000 purchased	-
Village Roadshow Ltd 'A' Class Pref	4,500,000	0.6	2,000,000	-	2,000,000
<i>Food & Drug Retailing (4.0%)</i>					
AWB Ltd	-	-	-	550,000 sold	550,000
Coles Myer Ltd	7,384,000	1.1	650,000	400,000 purchased	250,000
Woolworths Ltd	20,150,000	2.9	1,000,000	300,000 purchased	700,000

List of Investments as at 30 June 2006 (Continued)

	Market Value \$	30/6/2006 % of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustment	30/6/2005 Units Held
<i>Beverages (0.3%)</i>					
Coca-Cola Amatil Ltd	2,127,000	0.3	300,000	300,000 purchased	-
<i>Health Care Equipment & Supplies (0.0%)</i>					
Compumedics Ltd	-	-	-	750,000 sold	750,000
<i>Health Care Providers & Services (0.6%)</i>					
DCA Group Ltd	2,790,000	0.4	1,000,000	1,000,000 purchased	-
Ramsay Health Care Ltd	1,441,500	0.2	150,000	-	150,000
<i>Biotechnology (0.8%)</i>					
CSL Ltd	5,375,000	0.8	100,000	-	100,000
<i>Banks (21.1%)</i>					
Australia & New Zealand Banking Group Ltd	46,532,500	6.7	1,750,000	-	1,750,000
Commonwealth Bank Of Australia Ltd	19,984,500	2.9	450,000	-	450,000
National Australia Bank Ltd	35,160,000	5.1	1,000,000	-	1,000,000
St George Bank Ltd	13,198,500	1.9	450,000	-	450,000
Westpac Banking Corporation	31,428,000	4.5	1,350,000	-	1,350,000
<i>Diversified Financials (11.1%)</i>					
Diversified United Investment Ltd	31,734,680	4.6	9,804,795	3,000,000 purchased	6,804,795
Diversified United Investment Ltd – New Shares	6,172,250	0.9	1,940,959	1,940,959 shares purchased in Rights Issue	-
Macquarie Bank Ltd	6,900,000	1.0	100,000	-	100,000
OFM Investment Group Ltd	2,260,000	0.3	1,000,000	-	1,000,000
Perpetual Trustees Australia Ltd	14,630,000	2.1	200,000	-	200,000
Suncorp Metway Ltd	15,480,000	2.2	800,000	-	800,000
<i>Insurance (6.9%)</i>					
AMP Ltd	5,478,000	0.8	600,000	400,000 sold	1,000,000
AXA Asia Pacific Holdings Ltd	15,675,000	2.3	2,500,000	700,000 purchased	1,800,000
Henderson Group Plc	3,760,000	0.5	2,000,000	1,280,000 purchased	720,000
IOOF Holdings Ltd	4,250,000	0.6	500,000	200,000 purchased	300,000
Insurance Australia Group Ltd	2,675,000	0.4	500,000	200,000 purchased	300,000
Promina Group Ltd	1,124,000	0.2	200,000	200,000 purchased	-
QBE Insurance Group Ltd	14,350,000	2.1	700,000	-	700,000
<i>Real Estate (2.5%)</i>					
Westfield Group Ltd	17,330,000	2.5	1,000,000	350,000 purchased	650,000



	Market Value \$	30/6/2006 % of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustment	30/6/2005 Units Held
<i>Electronic Equipment (0.0%)</i>					
Vision Systems Ltd	-	-	-	1,500,000 sold	1,500,000
<i>Diversified Telecommunication Services (0.0%)</i>					
Telstra Corporation Ltd	-	-	-	500,000 sold	500,000
<i>Gas Utilities (2.5%)</i>					
Alintagas Ltd	5,215,000	0.8	500,000	-	500,000
Australian Gas Light Company Ltd	9,630,500	1.4	550,000	-	550,000
SP AusNet Group	2,205,000	0.3	1,750,000	1,750,000 purchased	-
<i>Cash Trust & Other Deposits (0.2%)</i>					
M F Cash Management Fund	1,512,511	0.2	1,512,511	655,741 deposited	856,770
NAB - 11 AM Deposit	21,429	0.0	21,429	2,521,659 redeemed	2,543,088
NAB - Cheque Account	2,061	0.0	-	2,061 deposited	-
	692,752,730	100.0%			



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Melbourne

21 Wirraway Drive

Port Melbourne VIC 3207, Melbourne, Australia

Phone 03 9415 5000



Australian United Investment Company Limited
2006 Annual Financial Report