AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 62ND ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON TUESDAY 18TH OCTOBER 2016 AT 11.00 AM

Ladies and Gentlemen,

Welcome to this year's Annual General Meeting.

In November last year the Company raised $88.7 million in a one for eight renounceable rights issue at $6.50 per share. The purpose of the issue was to invest in new opportunities and re-balance the portfolio without having to sell long term investments. The funds raised were invested gradually and by the end of June 2016 were fully deployed. The average dividend yield of these purchases was 4.8% with a high degree of franking. New investments have been made in the Healthcare, Telecommunication, Non-bank Financials, Property, Consumer and Infrastructure sectors.

The final dividend paid recently was maintained on the increased capital.

For the financial year just ended the Company's operating profit after income tax, which excludes net realised investment gains, was $42.2M compared to $47.8M in the previous year – an decrease of 11.7%.

However, if special dividends received in both periods are excluded, profit increased 0.4% to $42M. This year special dividends and distributions totalling only $163,700 after tax were received coming from Suncorp, Event Hospitality & Entertainment (formerly Amalgamated Holdings) and Carsales.com. In the previous year special dividends and distributions totalled $5.9M, including a non-cash non-taxable demerger dividend of $5.3M from BHP Billiton/South32.

The weighted average number of ordinary shares on issue for the year, adjusted for the bonus element in the rights issue was 120 million as against 111 million in the previous year, an increase of 8.1%.

After adjusting for the bonus element in the November 2015 one for eight renounceable rights issue, the earnings per share were 35.2 cents, compared to 43.0 cents for the previous year. Excluding special dividends, adjusted earnings per share were 35.0 cents, compared to 37.7 cents for the previous year, a decrease of 7.2%.

The decline in earnings per share (excluding special dividends) was caused primarily by a reduction in income from investments. One of the notable features was the decision by both BHP Billiton and Rio Tinto to abandon their long-standing progressive dividend policies in the face of a substantial cyclical downturn in profits, whilst many other companies in the mining and energy sector also reduced their dividends.

The Company's operating expenses (excluding borrowing costs) expressed as a percentage of the average market value of the portfolio were equivalent to 0.10%, steady on the previous year.

The final dividend for the year ending 30 June 2016 is 18.5 cents per share fully franked which, with the interim dividend of 15.5 cents per share fully franked, makes a total dividend for the year of 34 cents per share fully franked, steady on last year. Shares issued in the rights issue in November 2015 did not rank for the interim dividend but ranked for the final dividend.

The Company has maintained or increased its dividend paid per share every year since 1994, notwithstanding varying market conditions and several capital raisings. With the share price at 30 September at $7.20 AUI offered a fully franked 4.7% yield compared with around 4.2% for the ASX 200, which is not fully franked.

Bank borrowings were $122M at the end of the financial year (last year $120M) amounting to around 11.6% of the investment portfolio at market values. Cash on hand, cash on deposit and net short term receivables were $27M, or 2.5% of the investment portfolio at market values (last year $10M, or 1%).

Annual interest expense was covered 9.8 times by investment income.

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The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was $7.57 at 30 June 2016, compared to $8.42 at 30 June 2015.

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

To 30 June 2016	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	(4.21)	(7.00)	0.56
3 Years	5.12	6.42	7.66
5 Years	5.47	6.91	7.40
10 Years	4.15	4.17	4.86

It is relevant to note that in the last financial year the ASX top 20 price index fell 12%.

The Company's net asset backing accumulation performance is after tax and expenses and the impact of the Company's gearing for which no allowance is made in the index. Further the Company's dividends are fully franked, while the level of franking in the whole market is around 75-80%.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's net asset accumulation return for the year to 30 June 2016 was a fall of 2.3% compared to the index rise of 2.1%.

One of the defining features of the 2016 financial year was the continued decline in government bond yields to unprecedented lows, including negative yields in some countries. This led to sectors of the market with bond-like characteristics performing very strongly. For example, the Property Trust and Utilities sectors both rose 25% over the year. The Company has traditionally had a low exposure to these less equity like sectors which also have lower franking in their distributions. In the past year this proved to be the principal reason the portfolio underperformed the S&P/ASX Index. An above-index weighting to Energy also detracted from relative performance as the sector struggled during a cyclical downturn in the oil price. Partly offsetting this was a significant exposure to the Healthcare and Industrials sectors which performed strongly.

The ASX top 20 accumulation index fell 7% for the year while the combined small and mid-cap 50 sectors rose 16%. Two thirds of the portfolio is held in the top 20 stocks which historically have generally provided a good stream of franked dividends.

For the first quarter of this financial year, to 30 September, the accumulation performance of the Company is a rise of 6.4% compared to the ASX 200 accumulation index rise of 5.1%

The portfolio of the Company is invested in Australian equities and at balance date was spread over 49 companies. The Annual Report provides a list of the shareholdings at 30 June 2016 and 30 June 2015; the changes to the portfolio during the year; the percentage of the investment portfolio in terms of market values of each investment; and the twenty-five largest investments ranked in order of size at 30 June 2016.

The largest investments in terms of market value at balance date were Commonwealth Bank, Westpac Bank, ANZ Bank, National Australia Bank, Wesfarmers, Transurban and Diversified United Investment. These seven investments at 30 June 2016 comprised 42% of the portfolio and our twenty-five largest investments comprised 83% of the portfolio.

At 30 June 2016 the main sectors of the portfolio were Financials and Insurance 42%, Resources 17%, Consumer 12%, Healthcare 11% and Infrastructure and Transport 11%. Other investments were 4% and cash on hand was 3%

Turnover of the portfolio remains low. The average turnover of the portfolio (sales as a percentage of portfolio value) was 5% per annum over the last 5 years which means that on average we hold an investment for 20 years.

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Since 30 June we have allocated $5 million each to two carefully selected Small Cap managers, with good track records and reasonable fees. They are Colonial First State Wholesale Investment Small Companies Core Fund and Realindex Australian Small Companies Fund. We intend over the next 6 months to allocate up to another $10 million in total to these two managers. That will bring the allocation to the small caps sector to $20 million, or around 1.8% of the portfolio, but over time we may allocate up to 5% of the portfolio in this way to this sector. The Board sees advantages to shareholders in diversifying the portfolio away from the top 100 stocks which the directors follow by using carefully selected and monitored managers in this sector. This will avoid the risks and costs of the Company analysing and selecting its own Small Cap companies, and gain better access to Small Cap IPO's and placements.

Also since the end of the financial year, we have disposed of our holdings in Asciano and Regis Healthcare, and reduced our holdings in Monadelphous and IOOF. We have added to our holdings in Sydney Airport, Commonwealth Bank, Link Market Services and Lend Lease Group.

At 30 September the composition of our portfolio was broadly 42% in Financials and Insurance, 18% Resources, 12% Consumer, 10% Healthcare and 10% Infrastructure & Transport. Other investments were 7% and cash on hand was 1%. Borrowings were $130M, or 11.9% of the portfolio.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, and after allowing for the final dividend was $7.39 at 30 June, 2016 and $7.87 at 30 September, 2016.

AUI is a long term investor and does not intend disposing of its total portfolio. However, under current accounting standards the Company is required to provide for estimated tax that would arise on a theoretical disposal of the entire portfolio. After deducting this provision the net asset backing at 30 June 2016 was $6.70 per share and at 30 September 2016 was $6.94.

Outlook:

At last year's annual meeting we noted that the S&P ASX 200 Price Index had fallen 8% from 1 July to 30 September, 2015, and we said that "we consider that the balance of probability is for the market to recover this loss over the balance of the year". As it turned out half of the fall was recovered during the following nine months and the Index ended down 4%.

We are a long term Australian equities investment company with an emphasis on the largest companies by market capitalisation. Our turnover is low, around 5% in value of the investment portfolio and our operating costs are low at 0.1% of the value of the investment portfolio. The investment changes we made in the latest year were beneficial but the leading companies significantly underperformed the All Ordinaries Index.

The year ahead looks like being one of low world growth; low consumer inflation; lower effective stimulus from monetary policy; high government debts and budget deficits; low interest rates although starting to rise in the USA; rising criticism of globalisation and the free movement of traded goods and people; criticism of income inequality within countries; and growing disenchantment with Western World political leadership.

Our major concern is that Governments and central banks do not have much fire power left to address a major adverse event.

In these uncertain times we have sought some diversification to the smaller end of the market and the investment of new funds in industries other than banking and resources in which we have significant holdings. We have lowered our expectations of shorter term returns and focussed on maintaining a steady fully franked dividend.

Diversification of an individual's investment portfolio is more than usually important although Australian equities still seem a reasonable place to have some of one's savings compared to alternative investments. We are pleased that the year has started well and we are ahead of the Index.

Charles Goode
Chairman