AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 61ST ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 15TH OCTOBER 2015 AT 11.00 AM

Ladies and Gentlemen,

Welcome to this year's Annual General Meeting.

For the financial year just ended the Company's operating profit after income tax, which excludes net realised investment gains, was $47.8M compared to $40.3M in the previous year – an increase of 18.5%.

If special dividends received in both periods are excluded, the increase of in profit was 7.2%. This year special dividends and distributions of $5,896,269 after tax were received from Wesfarmers, Oil Search, Vocus Communications and included a non-cash special dividend of $5,287,500 from the BHP Billiton/South32 demerger. Special dividends and distributions totalling $1,250,550 were received in the previous year.

The operating profit reflects an increase in dividends received, a decrease in options premiums, interest and trust distributions received and an increase in interest paid.

The operating earnings per share excluding net realised gains and excluding special dividends and distributions were 38.3 cents, compared to 36.1 cents for the previous year.

The weighted average number of ordinary shares on issue for the year was 109 million as against 108 million in the previous year, an increase of 1%.

Bank borrowings were $120M at the end of the financial year (previous year $100M) amounting to around 11.4% of the investment portfolio at market values. Cash on hand, cash on deposit and net short term receivables were $10M, or 1% of the investment portfolio at market values (previous year $71M, or 7%).

Annual interest expense was covered 10.9 times by investment revenue.

The Company's operating expenses (excluding borrowing costs) expressed as a percentage of the average market value of the portfolio were equivalent to 0.10% compared to 0.11% for the previous year.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was $8.42 at 30 June 2015, compared to $8.57 at 30 June 2014.

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

To 30 June 2015	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	2.0	4.6	5.6
3 Years	14.7	18.7	14.7
5 Years	8.8	8.6	9.5
10 Years	7.1	7.8	6.9

In the year to 30 June 2015 we saw the ASX Accumulation Index rise by 5.6% but there were very wide divergences between individual sectors. The Energy sector fell 20.2% and Resources 6.5% while there were substantial rises elsewhere with Healthcare up 29.2%, Telecommunications 25.8%, Property Trusts 20.3% and Utilities 14.2%.

There has been a substantial change in the market weightings of the various sectors of the ASX 200 in the four years from June 2011 to June 2015 with Resources falling from 27.4% to 14.6%, Energy from 8.4% to 5.3% while there have been increases in the weightings of Financials ex Property Trusts 29.2% to 38.4%, Healthcare 3.5% to 6.7% and Telecommunications 3.5% to 6.1%.

This year the Company underperformed the index by 3.6% which reflects our significant investment in leading mining and energy companies. The 10 year compounded performance is 7.1% per annum, ahead of the accumulation index of 6.9% per annum.

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The Company's net asset backing accumulation performance is after tax and expenses and the impact of the Company's gearing for which no allowance is made in the index.

The final dividend for the year ending 30 June 2015 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, an increase of 2 cents on last year. The dividend has been increased every year over the last 20 years except one in 2009 when it was held steady.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 46 companies. The Annual Report provides a list of the shareholdings at 30 June 2015 and 30 June 2014; 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 2015.

The largest investments in terms of market value at balance date were ANZ Bank, Commonwealth Bank, Westpac Bank, National Australia Bank, BHP Billiton, Wesfarmers and Rio Tinto. These seven investments at 30 June 2015 comprised 47% of the portfolio and our twenty-five largest investments comprised 87% of the portfolio.

At 30 June 2015 the main sectors of the portfolio were Financials and Insurance 43%, Resources 23%, Consumer 14%, Healthcare 10% and Infrastructure and Transport 7%. Cash on hand and short term receivables at 30 June 2015 were 1% of the portfolio.

Turnover of the portfolio remains very low. The average turnover of the portfolio (sales as a percentage of portfolio value) was 5% per annum over the last 5 years. Over a longer period our turnover is around 7% which means on average we hold an investment for 15 years.

Since the end of the financial year, we have disposed of our holdings in Bradken, Vocus Communications and Medibank Private, and reduced our holdings in Mystate and Gowings. We have taken up our entitlements in the ANZ, Commonwealth Bank and Origin Energy rights issues, and added to our holdings in Carsales.com, Suncorp, Seek and Perpetual, and added Macquarie Atlas Group as a new investment to our portfolio.

At 30 September the composition of our portfolio was broadly 44% in Financials and Insurance, 20% Resources, 15% Consumer, 9% Healthcare and 8% Infrastructure & Transport. Cash on hand and short term receivables were 2%.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, and after allowing for the final dividend was $8.24 at 30 June, 2015 and $7.49 at 30 September, 2015.

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 2015 was $7.10 per share and at 30 September 2015 was $6.61.

<u>Outlook:</u>

The outlook guidance we gave last year unfortunately proved to be fairly accurate and many of the factors discussed then are still playing out. Twelve months ago we said, and I quote,

"We are not as bullish on world equity markets as we were last year, in fact we are cautious due to:

(a) The need for Governments to reduce their deficits and also their borrowings relative to gross domestic product;

(b) The end of quantative easing this month in the USA and the prospect of rising interest rates next year;
(c) A likely slowing down in the rate of growth in China;
(d) The aging of the population in many countries;
(e) The outbreak of religious and tribal wars in the Middle East;
(f) The quality of political leadership.

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We are even more cautious in respect to Australian equities due to:

(a) The high exchange rate and its impact on many industries;
(b) The impact on the level of mineral prices, and especially iron ore and coal, experienced in recent years from a supply response by the industry and a slower Chinese economy;
(c) Our national income is likely to show little growth despite a growth in gross domestic product with the difference being due to a fall in terms of trade;
(d) The concentration of our share market on banks which are experiencing slower loan demand, little scope for further falls in the doubtful debt provisions, and the requirements for increased capital ratios; and a concentration also on the mining sector;
(e) Our inflexible and regulated labour market contributing to making us a high cost economy and inhibiting productivity growth; and
(f) International investors, who have been attracted by high yields, retreating from our market due to concerns of a fall in the value of our currency.

We see unemployment remaining around 6%; our CPI inflation at 2 – 3%; GDP growth 2 – 3%; and a likely fall in our exchange rate. In this environment we will stay fairly fully invested but expect lower returns than in recent years due to a more subdued environment."

In looking to the year ahead some factors have improved, namely:

- There is more consensus in our community to address, over time, the budget deficit;
- There is more political discussion on innovation and change which may shake us, to some extent, out of our complacency and comfort zone; and
- Our exchange rate has fallen 30%.

However we still have the prospect of:

- Rising interest rates in USA
- A slowing rate of growth in China;
- Unrest in the Middle East;
- Minimal growth in Europe;
- Impact of much lower mineral and energy prices.

We feel these adverse factors are reflected in the current share market with the All Ordinaries Price Index falling 7.2% and the S&P/ASX 200 Price Index falling 8% from 30 June to 30 September this year. We consider that the balance of probability is for the market to recover this loss over the balance of the year.

We have announced a renounceable 1:8 entitlement issue at $6.50 per share to raise around $87 million. The funds from this issue will allow us to some extent rebalance our portfolio towards health and service industries without having to sell long-held investments that have considerable capital gains. We also consider it a reasonable time to commit further funds to invest in the Australian share market.

Charles Goode
Chairman