AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 60th ANNUAL GENERAL MEETING OF THE COMPANY
HELD AT 147 COLLINS STREET, MELBOURNE ON TUESDAY 14TH 2014 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 $40.3M compared to $35.5M in the previous year – an increase of 13.6%.

If special dividends received in both periods are excluded, profit was $39.1M, an increase of 13.9%. This year special dividends and distributions of $1,250,550 after tax were received from Westpac Bank, Coca Cola Amatil, The Trust Company, Adelaide Brighton and Brambles/Recall. Special dividends and distributions totalling $1,182,901 were received in the previous year.

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

The operating earnings per share excluding net realised gains and excluding special dividends and distributions were 36.1 cents, compared to 32.2 cents for the previous year.

The weighted average number of ordinary shares on issue for the year was 108 million as against 106 million in the previous year, an increase of 1.9%.

Bank borrowings were $100M at the end of the financial year (previous year $100M) amounting to around 9.6% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were $71M, or 7% of the investment portfolio at market values (previous year $37M, or 4%).

Annual interest expense was covered 9.5 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 0.11% compared to 0.13% for the previous year.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was $8.57 at 30 June 2014, compared to $7.49 at 30 June 2013.

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 2014	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	18.7	23.7	17.3
3 Years	10.0	12.7	10.0
5 Years	11.5	10.8	11.0
10 Years	9.8	10.0	8.9

This year the Company outperformed the index by 1.4% and the 10 year compounded performance is now 9.8% per annum, ahead of the accumulation index of 8.9% 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 2014 is 17.5 cents per share fully franked which, with the interim dividend of 14.5 cents per share fully franked, makes a total dividend for the year of 32 cents per share fully franked, an increase of 2.5 cents on last year. The dividend has been increased every year over the last 21 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 39 companies. The Annual Report provides a list of the shareholdings at 30 June 2014 and 30 June 2013; 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 2014.

The largest investments in terms of market value at balance date were ANZ Bank, Commonwealth Bank, Westpac Bank, BHP Billiton, National Australia Bank, Wesfarmers and Rio Tinto. These seven investments at 30 June 2014 comprised 50% of the portfolio and our twenty-five largest investments comprised 87% of the portfolio.

In the year to 30 June 2014 the portfolio was revalued up by $110M to a market value of $970M (2013: revalued up by $126M to a market value of $865M), the change being taken directly to the asset revaluation reserve.

The share portfolio was invested as to 74% in the top 20 companies by market capitalisation; 10% in companies 21 to 50 in size; 4% in companies 51 to 100; and 12% in companies outside the largest 100 companies.

At 30 June 2014 the main sectors of the portfolio were Financials 41%, Resources 26%, Consumer Staples 10%, Industrials 6% and Healthcare 4%. Cash on hand and short term receivables at 30 June 2014 were 7% of the portfolio.

Since the end of the financial year, we have disposed of our holdings in Echo Entertainment and Adelaide Brighton, and reduced our holdings in Bradken and QBE Insurance. We have added to our holdings in BHP and Sonic Healthcare and added Amcor, ASX and IOOF to our portfolio.

At 30 September the composition of our portfolio was broadly 40% in Financials, 24% Resources, 12% Consumer Staples, 7% Healthcare and 3% Industrials. Cash on hand and short term receivables were 5%.

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 $8.40 at 30 June, 2014 and $8.34 at 30 September, 2014.

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 2014 was $7.19 per share and at 30 September 2014 was $7.19.

<u>Outlook:</u>

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;

Continued over

(b) The end of quantitive 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.

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.

Charles Goode
Chairman