



Australian United Investment  
Company Limited

ABN 37 004 268 679

2009 ANNUAL FINANCIAL REPORT

# DIRECTORY

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## 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

## Registered Office

Level 20  
101 Collins Street  
Melbourne Vic 3000  
Tel: (613) 9654 0499  
Fax: (613) 9654 3499  
Email: [info@au.com.au](mailto:info@au.com.au)  
Website: [www.au.com.au](http://www.au.com.au)

## Bankers

National Australia Bank Limited  
ANZ Banking Group Ltd

## 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](http://www.computershare.com)

## Securities Exchange

The Company is listed on the Australian Securities Exchange Ltd.  
ASX Code: AUJ

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# CHAIRMAN'S REPORT

I present the Annual Report of Australian United Investment Company Limited for the year ended 30 June 2009.

The operating profit after income tax, excluding net realised gains on the investment portfolio, was \$29,292,837 compared to \$30,631,916 in the previous year, a decrease of 4%. Operating profit was steady on the previous year if special dividends received in both periods are excluded.

The total net profit after tax for the year of \$13,469,958 is after realised losses of \$5,495,547, and after unrealised impairment losses of \$10,327,332 required to be transferred to the income statement from the revaluation reserve under current accounting standards. This unrealised impairment charge does not affect the Company's net asset backing per share as the portfolio is revalued to market prices continuously. Unrealised impairment losses are not part of operating profit which is used by directors as the basis for determining the amount to be paid as dividends.

The weighted average number of ordinary shares for the year was 95,996,851 compared to 87,141,697 in the previous year, an increase of 10%.

The operating earnings per share (excluding net realised gains) were 30.5 cents compared to 35.2 cents for the previous year, or 29.6 cents excluding special dividends received (previously 32.5 cents).

This year special dividends totalling \$901,920 after tax were received from Tatts Group, Virgin Blue, Origin Energy, St. George Bank and Australian Worldwide Exploration. In 2008, special dividends of 2,303,577 after tax were received.

Bank borrowings were \$83 million at the end of the financial year (previous year \$50 million) amounting to around 12% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$41 million, or 6% of the investment portfolio at market values (previous year \$37 million, or 5%).

Annual interest expense was covered 9.6 times by investment revenue.

\$409,150 of new equity was raised in July 2008 through a share purchase plan at \$7.81 per share.

The net asset backing per share before provision for estimated tax on unrealised gains and the final dividend was \$6.02 at 30 June 2009, compared to \$7.95 at 30 June 2008.

Operating expenses (excluding borrowing costs) were 0.13% of the average market value of the portfolio compared to 0.10% in 2008.

The final dividend for the year ending 30 June 2009 is steady at 13.5¢ per share fully franked which, with the interim dividend of 11.5¢ per share fully franked, makes 25¢ per share fully franked for the year, unchanged from the previous year. This year's dividend payment dates are several weeks earlier than in previous years and directors intend to continue this timetable in future.

One cent 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.

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



# CHAIRMAN'S REPORT

continued

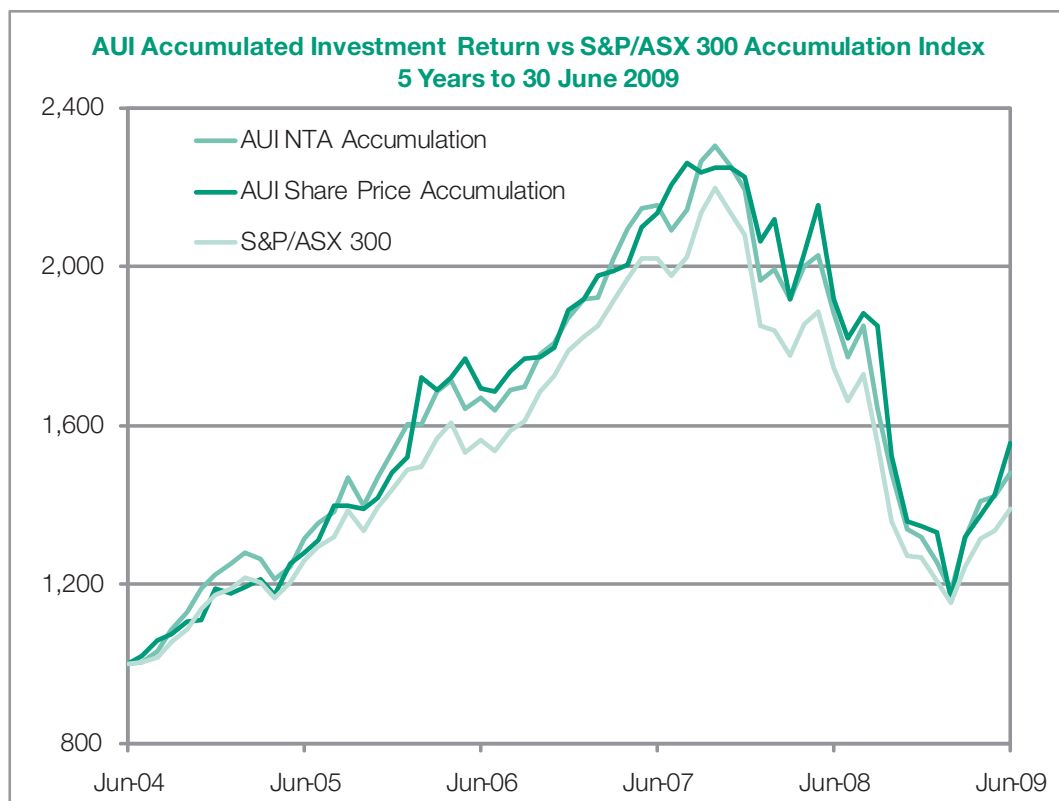
The Company's reported net tangible asset backing per share before provision for the final dividend (based on investments at market values and after the tax effect of net realised gains and losses but not unrealised gains and losses) over the last 5 years was as follows:



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	(21.3)	(20.3)
3 Years	(3.9)	(3.9)
5 Years	8.2	6.8

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



Source: Goldman Sachs JB Were

# CHAIRMAN'S REPORT

continued

The equity portfolio of the Company is invested in Australian equities and at 30 June 2009 was spread over 40 companies. The Annual Report provides a list of the shareholdings at 30 June 2009 and 30 June 2008, the changes to the portfolio during the year, and the market values as at 30 June 2009 of each investment together with its percentage of the portfolio.

As at 30 June 2009 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	72,912	11.0
2. Rio Tinto Ltd	47,763	7.2
3. Westpac Banking Corporation Ltd	44,550	6.7
4. ANZ Banking Group Ltd	43,699	6.6
5. Woodside Petroleum Ltd	43,210	6.5
6. Commonwealth Bank Ltd	33,012	5.0
7. Wesfarmers Ltd & Wesfarmers PPS	32,927	5.0
8. National Australia Bank Ltd	32,538	4.9
9. Diversified United Investment Ltd	31,200	4.7
10. Woolworths Ltd	26,360	4.0
11. QBE Insurance Group Ltd	19,900	3.0
12. Orica Ltd	19,548	2.9
13. Alumina Ltd	14,002	2.1
14. Telstra Corporation Ltd	13,560	2.0
15. Westfield Group	12,980	1.9
16. Origin Energy Ltd	11,712	1.8
17. Santos Ltd	11,712	1.8
18. AXA Asia Pacific Holdings Ltd	11,670	1.8
19. Tabcorp Holdings Ltd	11,456	1.7
20. Brambles Ltd	10,728	1.6
21. CSL Ltd	9,645	1.5
22. AGL Energy Ltd	9,415	1.4
23. Perpetual Ltd	7,137	1.1
24. Transurban Group	6,270	0.9
25. Tatts Group Ltd	5,610	0.8
	583,516	87.9%
Total Investments at Market Value and Cash	663,958	



Charles Goode  
Chairman

# CORPORATE GOVERNANCE STATEMENT

The Company has adopted corporate governance principles in accordance with the Australian Securities Exchange Corporate Governance Council's "Good Corporate Governance Principles and 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 Securities Exchange Corporate Governance Council's 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. Directors have agreed not to enter into margin loans over their shareholdings 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, the Company's only employee, are set out in a letter of engagement which the Board approves. The Board also approves letters of engagement for the externally provided accounting, tax, custody and audit services. Share registry services are purchased on commercial terms.

# CORPORATE GOVERNANCE STATEMENT

continued

## 5. Directors' Terms of Appointment, Remuneration and Performance

Directors' fees are reviewed annually by the Nomination and Remuneration Committee in the light of the Company's 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 directors' fees is set by the shareholders in general meeting. Details of directors' remuneration are set out in the Remuneration Report in the Annual Report.

Each director appointed before October 2006 entered into a Retirement Agreement at that time to convert accrued retirement entitlements into shares in the Company to be held until retirement in the Non-Executive Directors 2006 Accrued Entitlements Share Plan, as approved by shareholders.

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 from their 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 Charter of each committee are reviewed by the Board annually. The Audit Committee Charter includes 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 Securities Exchange Corporate Governance Council's Recommendations and Australian Securities 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. The Company Secretary's remuneration is paid on a fee for services basis and is disclosed in the Remuneration Report in the Annual Report. No additional fees are paid to members of the Board committees.

Committee members' qualifications and attendance at meetings are set out in the Directors' Report in the Annual Report.

## 7. Disclosure Procedures

The Company has established procedures to ensure compliance with the Australian Securities Exchange listing rule disclosure requirements including monthly disclosure of the Company's net tangible asset backing per share. These procedures include a timetable of the required disclosures which is overseen by the Company Secretary.

# CORPORATE GOVERNANCE STATEMENT

continued

## 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 internal control system and the management of risk half yearly, after receiving reports from the Company Secretary on these matters, and makes appropriate recommendations to the board.

The Board receives a letter half yearly from the Company's external accountants regarding their procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

Based on his review of the internal control systems, management of risk, the financial statements and the letter from the Company's external accountants, the Company Secretary then provides half yearly the declarations required by Section 295A of the Corporations Act and confirms that in his opinion the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view.

Details of the Company's financial risk management are set out in the notes to the financial statements in the Annual Report.

## 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 Securities Exchange and the Company has procedures to ensure compliance with Australian Securities 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 2009 and the auditors' report thereon.

## Directors

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

**Charles Goode** AC, B.Com. (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon).  
Chairman, Appointed April 1990  
Age 70

Mr Goode is the Chairman of the Boards of Australia and New Zealand Banking Group Limited (director since 1991), Diversified United Investment Limited (since 1991), The Ian Potter Foundation Limited (governor since 1987) and Grosvenor Australia Properties Pty Limited (since 2008).

Formerly Mr Goode was a director of Woodside Petroleum Limited (1988 – 2007, Chairman 1999-2007) and Singapore Airlines Limited (1999 – 2006).

**Graeme Moir** B.Com (Univ. of NZ), ACA (NZ), ACIS.  
Non-executive Director, Appointed March 1976  
Age 77

Mr Moir has had 47 years experience in the share investment field. He is the principal of Moir's Investment Service Pty. Ltd. (since 1965), is a director of Graeme Moir and Associates Pty. Ltd. (since 1965) and Diversified United Investment Limited (since 1991).

**John Rose** AO, BCom (NZ), DipEc (Camb), PhD(Melb). Hon D.Bus (Melb).  
Non-executive Director, Appointed April 2000  
Age 73

Mr Rose is a governor of The Ian Potter Foundation Limited (since 2000). Formerly he was the Sidney Myer Professor of Commerce and Business Administration of the University of Melbourne, a Director of The Melbourne Business School, and a director of Woodside Petroleum Limited (1990 - 2005).

**Peter Wetherall** B.E. Hons (Qld), B.A. Hons (Oxon)  
Non-executive Director, Appointed November 2001  
Age 53

Mr Wetherall has 29 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 (since 1995). He is Chairman of the Company's Audit Committee.

**Ronald Dewhurst**  
Non-executive Director, Appointed June 2005  
Age 57

Mr Dewhurst has over 30 years domestic and international experience in investment and financial services management. He was a director and Chief Executive Officer of IOOF Holdings Ltd from 2004 to 2007 and is currently Senior Managing Director, Head of International, for Legg Mason Inc., a US based global asset manager. He is a director of Legg Mason Asset Management Australia Limited (since 2009), Breast Cancer Network of Australia (since 2003), National Gallery of Victoria (since 2003) and Pride Capital Partners LLC (since 2002).

Formerly he was a director of Orchard Petroleum Ltd (2005-2007)

# DIRECTORS' REPORT

continued

## Company Secretary

**Andrew Hancock** FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)  
Company Secretary, Appointed 11 October 1995  
Age 57

Mr Hancock is also the Company Secretary of Diversified United Investment Ltd (since 1991), has served as Chairman and is currently Secretary of the Australian Listed Investment Companies Association and is Chairman or a director of a number of private investment companies.

## Principal Activity of the Company

The principal activity of the Company is that of an investment company which seeks, through a portfolio of securities predominantly comprising shares of companies listed on the ASX, to provide income and capital appreciation over the longer term.

As at 30 June 2009 the Company's portfolio had a market value (including cash and receivables) of \$663,958,548 (2008: \$809,495,105). The net tangible asset backing of the Company's ordinary shares at 30 June 2009 was \$6.02 (2008: \$7.95). This net tangible asset backing calculation is based on investments at market value and is after the tax effect of realised gains and losses, before estimated tax on unrealised gains and losses, 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 \$5.40 (2008: \$6.76).

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 and unrealised gains and losses from the investment portfolio was \$29,292,837 compared to \$30,631,916 in the previous year - a decrease of 4.4%. If special dividends received are disregarded, operating profit before net realised and unrealised losses on the investment portfolio was steady on the previous year. The operating profit after tax includes \$901,920 of special dividends and distributions received (2008: \$2,303,577).

The weighted average number of ordinary shares for the year was 95,996,851 compared to 87,141,697 in the previous year, an increase of 10%.

The basic and diluted earnings per share before net realised and unrealised gains and losses from the investment portfolio and special dividends was 29.6 cents compared to 32.5 cents for the previous year (adjusted for the dilutionary effect of the July 2008 share purchase plan).

The total net profit after tax for the year of \$13,469,958 is after unrealised impairment losses transferred from the revaluation reserve of \$10,327,332. This charge does not affect the Company's net assets as investments are revalued to market prices continuously. In assessing impairments the Company complies with the auditing profession's interpretation of accounting standard AASB 139, which takes a shorter term view of movements in share prices and is not reflective of the Company's longer term view of the fair value of its investments. The directors regard the operating result before net realised and unrealised gains or losses as the relevant measure of profit.

The Company incurred expenses (excluding finance costs) of \$986,645 (2008: \$841,797) which is equivalent to 0.13% (2008: 0.10%) of the average market value of the portfolio.

On 25 July 2008 the Company issued 52,388 fully paid shares in accordance with a share purchase plan announced on 18 June 2008. The issue raised \$409,150 at the placement price of \$7.81 per share, which represented a 5% discount to the Net Tangible Asset Backing per share of the Company as at 31 May 2008 adjusted for the general share market movement to 17 June 2008.

Bank borrowings were \$83 million at the end of the financial year (previous year \$50 million) gearing the investment portfolio by around 12%. Cash on hand, cash deposits and short term receivables were \$41 million or 6% of the investment portfolio at market values (2008: \$37 million, or 5%). Annual interest expense was covered 9.6 times by investment revenue.

# 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 2008 of 13.5 cents per share fully franked paid on 17 October 2008.		12,832,182
An interim dividend in respect of the year ended 30 June 2009 of 11.5 cents per share fully franked paid on 25 March 2009.		11,020,865
Paid or declared after end of year		\$
A final dividend in respect of the year ended 30 June 2009 of 13.5 cents per share fully franked payable on 21 September 2009.		13,143,584

## 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		Nomination & Remuneration 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	10	10	-	-	1	1
Graeme E Moir	10	10	2	2	1	1
P John Rose	10	10	2	2	1	1
Peter J Wetherall	10	10	2	2	1	1
Ron R Dewhurst	8	10	2	2	1	1

The Audit Committee comprises Messrs Wetherall (Chairman), Rose, Dewhurst and Moir.

All directors are members of the Nomination and Remuneration Committee

## Directors' Interests

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

	SHARES		
	1	2	3
Charles B. Goode	58,495	747,107	33,583
Graeme E. Moir	70,000	-	16,792
P. John Rose	63,952	-	10,915
Peter J. Wetherall	10,758	-	8,256
Ron Dewhurst	-	26,594	-

Note:

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest
3. Held for the Director in accordance with the terms of the Non-Executive Directors 2006 Accrued Entitlements Share Plan

# DIRECTORS' REPORT

continued

Except as stated above, no director –

- (a) has any relevant interest in shares of the Company or a related body corporate;
- (b) has any relevant interests in debentures of, or interests in a registered scheme made available by, the company or a related body corporate;
- (c) has any rights or options over shares in, debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (d) is a party to a contract, or is entitled to a benefit under a contract, that confers a right to call for or deliver shares in, or debenture of or interests in a registered scheme made available by the Company or a related body corporate.

## Remuneration Report

Non-Executive Directors' Fees <sup>(i)</sup>	2009	2008
	\$	\$
Charles Goode	142,000	132,000
Graeme Moir	71,000	66,000
P John Rose	71,000	66,000
Peter Wetherall	71,000	66,000
Ron Dewhurst	71,000	66,000
<b>Total</b>	<b>426,000</b>	<b>396,000</b>

(i) Directors fees include superannuation contributions elected by Directors to be paid to their nominated superannuation fund.

(ii) No additional fees are paid to members of the Board Committees.

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and for the broader outcome of increasing the Company's net profit. Directors' fees are fixed and reviewed annually and the maximum total amount of directors' fees is set by the shareholders in general meeting.

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance. Amounts disclosed for directors' remuneration exclude insurance premiums of \$35,268 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 15 of the financial statements for information relating to the insurance contracts and details of the Non-Executive Directors 2006 Accrued Entitlements Share Plan.

The Company Secretary, Mr Andrew J Hancock, received \$76,000 (2008: \$66,000) for services provided to the Company. This amount includes a payment of \$5,000 for additional work performed by Mr Hancock during the year.

# DIRECTORS' REPORT

continued

## 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 \$6,270 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 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 did not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

## State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review other than the value of the investment portfolio fluctuated broadly in line with market movements.

## Environmental Regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

## Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## Likely Developments

The directors do not anticipate any particular developments in the operations of the Company which will affect the results of future financial years other than the value of the investment portfolio is expected to fluctuate broadly in line with market movements.

## Indemnification

Details of directors' indemnification are set out in Note 15 to the financial statements.

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

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' Report for the year ended 30 June 2009.

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

Melbourne, 19 August 2009

Signed in accordance with a resolution of the Directors:



Charles 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**

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 2009 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.

*KPMG*

KPMG

*MSomerville*

Michelle Somerville  
Partner  
Melbourne  
19 August 2009

# INCOME STATEMENT

for the year ended 30 June 2009

	Note	2009 \$	2008 \$
Revenue from investment portfolio	2	34,430,081	36,304,518
Administration and other expenses		(986,645)	(841,797)
Finance expenses	2	(3,570,578)	(5,266,929)
Operating profit before income tax expense and net gains/(losses) on investment portfolio		29,872,858	30,195,792
Income tax (expense)/benefit *		(580,021)	436,124
<b>Net operating profit before net gains/(losses) on investment portfolio</b>		<b>29,292,837</b>	<b>30,631,916</b>
Net realised (losses)/gains on investment portfolio transferred from revaluation reserve		(7,682,977)	21,968,372
Income tax benefit/(expense) thereon *		2,187,430	(6,353,421)
		(5,495,547)	15,614,951
Unrealised impairment losses on investment portfolio transferred from revaluation reserve	1(d)	(14,087,465)	(5,600,457)
Income tax benefit/(expense) thereon *		3,760,133	1,621,502
		(10,327,332)	(3,978,955)
		(15,822,879)	11,635,996
<b>Profit for the year</b>		<b>13,469,958</b>	<b>42,267,912</b>
* Total income tax benefit/(expense)	4(a)	5,367,542	(4,295,795)
Basic and diluted earnings per share (cents)	5	14.0	48.5

Basic and diluted operating earnings per share (cents) before net realised and unrealised losses on investment portfolio are shown in Note 5.

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 20 to 34.

# BALANCE SHEET

as at 30 June 2009

	Note	2009 \$	2008 \$
<b>Assets</b>			
Cash assets	16	22,267,330	2,411,899
Receivables	7	3,945,491	4,996,250
Investments	8	15,000,000	29,827,872
Other	9	-	31,952
<b>Total current assets</b>		41,212,821	37,267,973
Investment portfolio	8	622,745,631	772,227,132
<b>Total non-current assets</b>		622,745,631	772,227,132
<b>Total assets</b>		663,958,452	809,495,105
<b>Liabilities</b>			
Payables	10	137,262	125,039
Current tax liability	4(a)	535,208	4,706,578
Borrowings – interest bearing	11	16,799,125	9,849,024
<b>Total current liabilities</b>		17,471,595	14,680,641
Borrowings – interest bearing	11	65,214,803	39,312,291
Deferred tax liability	4(b)	55,894,535	113,137,207
<b>Total non-current liabilities</b>		121,109,338	152,449,498
<b>Total liabilities</b>		138,580,933	167,130,139
<b>Net assets</b>		525,377,519	642,364,966
<b>Equity</b>			
Issued capital	13(a)	263,936,920	251,635,602
Reserves	13(b)	261,440,599	390,729,364
<b>Total equity</b>		525,377,519	642,364,966

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 20 to 34.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2009

	Note	2009 \$	2008 \$
<b>Total equity at the beginning of the year</b>		642,364,966	643,712,661
Revaluation of investment portfolio	13(b)	(191,985,180)	(125,397,681)
Tax benefit on revaluation of investments	13(b)	57,256,625	37,065,442
Net losses/(gains) on investment portfolio after tax transferred to income statement	13(b)	15,822,879	(11,635,996)
<b>Total direct equity adjustments</b>		(118,905,676)	(99,968,235)
Profit for the year		13,469,958	42,267,912
<b>Total direct equity adjustments and profit for the year</b>		(105,435,718)	(57,700,323)
<b>Transactions with shareholders</b>			
Dividend reinvestment plan	13(b)	11,901,955	10,965,222
Dividends paid from retained earnings	13(b)	(11,020,865)	(19,837,782)
Dividends paid from realisation reserve	13(b)	(12,832,182)	(770,550)
Share purchase plan net of costs	13(b)	399,363	-
Share placement net of costs	13(b)	-	65,995,738
<b>Total transactions with shareholders</b>		(11,551,729)	56,352,628
<b>Total equity at the end of the year</b>		525,377,519	642,364,966

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 20 to 34.

# STATEMENT OF CASH FLOWS

for the year ended 30 June 2009

	Note	2009 \$	2008 \$
<b>Cash flows from operating activities</b>			
Interest received		2,320,758	439,692
Dividends and trust distributions received		33,103,395	34,310,040
Finance costs paid		(3,717,967)	(4,908,480)
Administration and other expenses paid		(943,361)	(844,876)
Income taxes paid		(4,737,438)	-
<b>Net cash flow from operating activities</b>	16	26,025,387	28,996,376
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		58,843,020	54,268,827
Purchases of investments		(86,461,247)	(77,621,027)
<b>Net cash flow used in investing activities</b>		(27,618,227)	(23,352,200)
<b>Cash flows from financing activities</b>			
Dividends paid net of dividend reinvestment plan		(11,951,092)	(9,643,110)
Proceeds from borrowings		33,000,000	-
Repayments of borrowings		-	(60,000,000)
Proceeds from share purchase plan net of costs		399,363	-
Proceeds from share placement net of costs		-	65,995,738
<b>Net cash flow from/(used in) financing activities</b>		21,448,271	(3,647,372)
Net increase/(decrease) in cash held		19,855,431	1,996,804
Cash and cash equivalents at 1 July		2,411,899	415,095
<b>Cash and cash equivalents at 30 June</b>	16	22,267,330	2,411,899

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 20 to 34.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## 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 19 August 2009.

### (a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

### (b) Basis of preparation

The financial report is presented in Australian dollars. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company has not applied any Australian Accounting Standards or UIG Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2009 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Company only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. In particular, the significant area of estimation uncertainty and critical judgments in applying accounting policies that has the most significant effect on the amounts recognised in the financial statements is impairment.

### (c) Investments

The Company is a long term investor. Under IFRS, 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.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 139. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the income statement.

Interest bearing investments are recognised as fair value and then measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the income statement over the period of the investment on an effective interest basis.

### (d) Impairment

The Company reviews its investment portfolio at each balance sheet date to determine whether there is any objective evidence of impairment in the fair value of each investment. Where 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 (after tax) that had been recognised directly in equity is immediately recognised in the income statement. Any subsequent reversal of an impairment loss is not reversed through the income statement.

In assessing whether there is objective evidence of impairment the Company complies with the auditing profession's interpretations of accounting standard AASB139, which takes a shorter term view of movements in share prices, and is not reflective of the Company's longer term view of the fair value of its investments.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## (e) Revenue from investment portfolio

The activity of the Company is that of an investment company, returns being in the form of dividends, interest, trust income and 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.

## (f) 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.

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as a deferred tax liability. Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes and offset against any capital losses carried forward. At this time, the tax recognised directly in equity is transferred to Net Profit and adjusted to income tax expense. The associated deferred tax liability is similarly adjusted and transferred to current tax payable.

When Capital Gains Tax rollover relief is elected on the disposal of securities, tax is still calculated on gains made (even though the income tax liability has been deferred until subsequent disposal of the replacement securities) and recognised in income tax expense for accounting purposes.

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.

## (g) 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.

## (h) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

	2009 \$	2008 \$
<b>2. Revenue and Expenses</b>		
<b>(a) Revenue</b>		
Dividends received or due and receivable	30,248,672	32,800,616
Interest received or due and receivable	2,187,069	613,532
Trust distributions received or due and receivable	1,938,090	2,890,370
Sub-underwriting fee	56,250	-
	<b>34,430,081</b>	<b>36,304,518</b>
<b>(b) Expenses</b>		
<i>Finance expenses</i>		
Interest and borrowing expenses	3,570,578	5,266,929

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<b>3. Auditor's Remuneration</b>		
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	46,200	38,500
- Tax related services	6,270	4,675
<b>4. Taxation</b>		
<b>(a) Income Tax Expense</b>		
<b>(i) Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year	535,208	4,706,578
Adjustments for prior years	30,860	(63,413)
	566,068	4,643,165
<b>Deferred Tax Expense</b>		
Tax deferred through CGT rollover relief	(351,965)	284,389
Tax benefit of capital losses carried forward	(4,545,786)	-
Impairment losses now realised	672,035	-
Tax benefit on impairment loss recognised	(1,721,847)	-
Temporary differences	13,953	(631,759)
	(5,933,610)	(347,370)
Total income tax expense in income statement	(5,367,542)	4,295,795
<b>(ii) Reconciliation between tax expense and pre-tax net profit</b>		
Prima facie tax expense calculated at 30% on the profit for the year	2,430,725	13,969,112
Increase in tax expense due to:		
Franking credits/foreign tax credit gross-up on dividends received	3,599,327	3,718,343
Decrease in tax expense due to:		
Sundry items	732,076	(379,822)
Tax Deferred revenue received	(162,773)	(553,950)
Franking credits/foreign tax credit on dividends received	(11,997,757)	(12,394,475)
Tax expense on operating profit	(5,398,402)	4,359,208
Under/ (over) provided in prior years	30,860	(63,413)
Income tax (benefit)/expense attributable to profit for the year	(5,367,542)	4,295,795
<b>(iii) Deferred tax recognised directly in equity</b>		
Decrease in provision for tax on unrealised gains on investment portfolio	57,256,625	37,065,442

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<b>(b) Deferred Tax Assets and Liabilities</b>		
<b>Recognised deferred tax assets and liabilities</b>		
Revaluation reserve – Provision for tax on unrealised gains on investment portfolio	(60,370,121)	(113,080,960)
Other	(70,200)	(56,247)
Tax benefit of capital losses carried forward	4,545,786	-
Net tax assets/(liabilities)	(55,894,535)	(113,137,207)

	2009 Cents	2008 Cents
<b>5. Earnings Per Share *</b>		
Basic earnings per share	14.0	48.5
Basic earnings per share before net realised and unrealised gains and losses on investment portfolio	30.5	35.2
Basic earnings per share before special dividends and net realised and unrealised losses and gains on investment portfolio	29.6	32.5

Net realised losses on the investment portfolio for the current year include non-cash, scrip based deemed sales arising from the schemes of arrangement affecting the holdings in St. George Bank Ltd and Westpac Banking Group Ltd.

\* Adjusted for dilutionary effect of the Share Purchase Plan on 25 July 2008.

	2009 \$	2008 \$
<b>Profit reconciliation used in the calculation of earnings per share</b>		
Profit for the year	13,469,958	42,267,912
Net realised and unrealised losses/(gains) on investment portfolio	15,822,879	(11,635,996)
Net profit before net realised and unrealised losses and gains on investment portfolio	29,292,837	30,631,916
Special dividends	(901,920)	(2,303,577)
Net profit before net realised and unrealised losses and gains on investment portfolio and special dividends	28,390,917	28,328,339

Earnings per share for the 2009 year are calculated on a weighted average adjusted number of shares taking into account the new issue in July 2008.

	2009 Shares	2008 Shares
<b>Weighted average number of ordinary shares*</b>		
Issued ordinary shares at 1 July	94,998,940	85,682,738
Effect of purchase plan shares issued in July 2008	48,798	-
Effect of placement shares issued in May 2008	-	894,722
Effect of dividend reinvestment plan – final dividend	541,763	373,854
Effect of dividend reinvestment plan – interim dividend	407,350	190,383
Weighted average number of ordinary shares for the year	95,996,851	87,141,697

\* Adjusted for dilutionary effect of the Share Purchase Plan on 25 July 2008.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<b>6. Dividends</b>		
Dividends recognised in the current year by the Company are:		
(i) 2008 final dividend of 13.5 cents per share (2007: 12.5 cents) fully franked paid 17 October 2008	12,832,182	10,701,589
(ii) 2009 interim dividend of 11.5 cents per share (2008: 11.5 cents) fully franked paid 25 March 2009	11,020,865	9,906,743
	<u>23,853,047</u>	<u>20,608,332</u>

Since 30 June 2009, the directors have declared the following dividend payable on 21 September 2009:

- Final dividend of 13.5 cents per share fully franked (2008: 13.5 cents)	13,143,584	12,832,182
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The final dividend includes of a Listed Investment Company capital gain dividend of 1 cent per share (2008: 13.5 cents per share).

The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2009.

#### *Dividend Franking Account:*

The balance of the Franking Account at 30 June 2009 is \$25,298,632 (2008: \$27,970,621) 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 (none at 30 June 2009).

After allowing for the final 2009 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$19,665,667 (2008: \$22,474,067).

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 2009 was \$1,345,700 (2008: \$14,896,034). 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 2009 would be \$372,101.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<b>7. Receivables</b>		
<i>Current</i>		
Dividends Receivable	3,611,000	4,316,553
Trust Distributions Receivable	230,000	672,500
Other	104,491	7,197
	<u>3,945,491</u>	<u>4,996,250</u>
<b>8. Investments</b>		
<i>Current</i>		
Term Deposits	15,000,000	-
Bank Bills endorsed by trading banks – at amortised cost	-	29,827,872
	<u>15,000,000</u>	<u>29,827,872</u>
<i>Non-Current</i>		
Investments quoted on prescribed stock exchanges (at fair value)	<u>622,745,631</u>	<u>772,227,132</u>
<b>9. Other Assets</b>		
<i>Current</i>		
Prepayments	-	31,952
<b>10. Payables</b>		
<i>Current</i>		
Trade Creditors	<u>137,262</u>	<u>125,039</u>
<b>11. Interest Bearing Liabilities</b>		
<i>Current</i>		
Bills payable – Secured	<u>16,799,125</u>	<u>9,849,024</u>
<i>Non-Current</i>		
Bills payable – Secured	<u>65,214,803</u>	<u>39,312,291</u>

The face value of the drawn facility is \$83 million (2008: \$50 million). The amounts disclosed above are at amortised cost. For more information regarding the Company's exposure to interest risk and liquidity risk, see Notes 18 and 19.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<b>12. Financing Arrangements</b>		
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Commercial Bill Facility – Secured	100,000,000	100,000,000
<i>Facilities utilised at balance date</i>		
Commercial Bill Facility – Secured	83,000,000	50,000,000

## 13. Capital and Reserves

### (a) Issued Capital

Issued and paid-up share capital		
97,359,884 (2008: 95,002,170) ordinary fully paid shares	263,936,920	251,635,602
Movements in issued capital:		
Balance at beginning of the financial year	251,635,602	174,674,642
Shares issued		
- Share purchase plan (net of costs) (i)	399,363	-
- Share placement	-	65,995,738
- Dividend re-investment plan (ii)	11,901,955	10,965,222
	263,936,920	251,635,602

(i) On 25 July 2008, the Company issued 52,388 fully paid ordinary shares in accordance with a placement announced on 18 June 2008. The issue raised \$409,150 at the purchase plan price of \$7.81 per share.

(ii) In respect of the final dividend paid in October 2008 772,462 ordinary shares were issued at \$6.92 each and in respect of the interim dividend paid in March 2009 1,532,864 ordinary shares were issued at \$4.2773 each.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## (b) Reconciliation of movements in capital and reserves

	Issued Capital \$	Revaluation Reserve \$	Realisation Reserve \$	Impairment Reserve \$	Retained Earnings \$	Total Equity \$
<b>As at 1 July 2007</b>	174,674,642	364,286,261	49,348,896	-	55,402,862	643,712,661
Revaluation of investment portfolio	-	(125,397,681)	-	-	-	(125,397,681)
Tax benefit on revaluation	-	37,065,442	-	-	-	37,065,442
Net gains and losses on investment portfolio	-	(16,367,915)	-	(5,600,457)	21,968,372	-
Income tax on net realised gains and unrealised losses	-	4,731,919	-	1,621,502	(6,353,421)	-
Net operating profit for the period	-	-	-	-	30,631,916	30,631,916
Dividend reinvestment plan	10,965,222	-	-	-	-	10,965,222
Dividends paid	-	-	(770,550)	-	(19,837,782)	(20,608,332)
Share Placement	65,995,738	-	-	-	-	65,995,738
Realised gains and unrealised losses transferred after tax	-	-	15,614,951	-	(15,614,951)	-
<b>As at 30 June 2008</b>	251,635,602	264,318,026	64,193,297	(3,978,955)	66,196,996	642,364,966
<b>As at 1 July 2008</b>	251,635,602	264,318,026	64,193,297	(3,978,955)	66,196,996	642,364,966
Revaluation of investment portfolio	-	(191,985,180)	-	-	-	(191,985,180)
Tax benefit on revaluation	-	57,256,625	-	-	-	57,256,625
Net gains and losses on investment portfolio	-	21,770,442	-	(14,087,465)	(7,682,977)	-
Tax benefit on net realised and unrealised losses	-	(5,947,563)	-	3,760,133	2,187,430	-
Net operating profit for period	-	-	-	-	29,292,837	29,292,837
Dividend reinvestment plan	11,901,955	-	-	-	-	11,901,955
Dividends paid	-	-	(12,832,182)	-	(11,020,865)	(23,853,047)
Share Purchase Plan	399,363	-	-	-	-	399,363
Realised losses transferred after tax	-	-	(12,015,081)	6,519,534	5,495,547	-
<b>As at 30 June 2009</b>	263,936,920	145,412,350	39,346,034	(7,786,753)	84,468,968	525,377,519

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## (c) Nature and Purpose of Reserves

### **Revaluation Reserve**

Increments or decrements on the revaluation of long term investments after provision for deferred tax are recorded in this reserve. When an investment has been sold or de-recognised realised or unrealised gains or losses (after tax) are transferred from the revaluation reserve to the income statement. When an investment has been determined to be impaired the cumulative loss (after tax) that had been recognised directly in the revaluation reserve is transferred to the income statement.

### **Realisation Reserve**

The realisation reserve records realised gains and losses (after tax) from sale of investments which are transferred from retained profits. At the time that an investment is sold any impairment (after tax) that has been transferred to the impairment reserve is transferred to the realisation reserve.

### **Impairment Reserve**

The impairment reserve records unrealised impairment losses transferred from the revaluation reserve through the income statement to this reserve. When an investment is sold any impairment (after tax) that has been recorded in the impairment reserve is transferred to the realisation reserve.

## 14. Directors' Remuneration

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

## 15. Related Parties

### **Directors and director-related entities**

The names of each person holding the position of director of Australian United Investment Company Limited during the financial year are 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 2009 to 18 June 2010.

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 other material contracts involving directors' interests existing at year end, other than each director, except Ronald Dewhurst, entered into a director's retirement agreement with the Company in 2006, converting accrued retirement entitlements into shares in the Company, to be held in a Share Plan until retirement.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## Directors' Holdings of Shares

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

Directors	Held at 1/7/08	Purchases	Sales	Held at 30/6/09
Charles B. Goode	803,080	36,105	-	839,185
Graeme E. Moir	86,792	-	-	86,792
Peter J. Wetherall	18,610	404	-	19,014
P. John Rose	74,360	507	-	74,867
Ron R. Dewhurst	25,402	1,192	-	26,594

## Directors' Transactions in Shares

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

	2009	2008
	\$	\$

## 16. Notes to the Statement of Cash Flows

### Reconciliation of Cash

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:

Units in Cash Management Trusts and Deposits at call	22,267,330	2,411,899
	22,267,330	2,411,899

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	2009 \$	2008 \$
<i>Reconciliation of operating profit after income tax to net cash provided by operating activities:</i>		
Profit for the year	13,469,958	42,267,912
Add/(less) net realised capital gains	15,822,879	(11,635,996)
Net cash provided by operating activities before changes in assets and liabilities	29,292,837	30,631,916
Add/(less) changes in assets and liabilities:		
(Increase)/decrease in dividends receivable	705,553	(583,053)
(Increase)/decrease in interest receivable	133,689	(173,840)
(Increase)/decrease in distributions receivable	442,500	(37,500)
(Increase) in other debtors	(57,143)	(1,002)
(Increase)/decrease in deferred tax assets	(4,545,786)	945,683
Increase/(decrease) in deferred tax liability	13,953	(19,352)
Increase/(decrease) in current tax	374,416	(1,362,454)
Increase/(decrease) in accrued expenses	12,223	(2,938)
(Increase)/decrease in prepaid interest and borrowing costs	(147,387)	358,451
Decrease in other prepayments	31,952	857
Add/(less) non-cash items:		
Non-cash income	(231,420)	(760,392)
Net cash provided by operating activities	26,025,387	28,996,376

## 17. Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term.

The Company's capital will fluctuate in accordance with prevailing market movements, and it may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

## 18. Financial Risk Management

*AASB 7 – Financial Instruments: Disclosures* identifies three types of risk associated with financial instruments (i.e. investments, receivables, payables and borrowings).

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

## Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk exposure of the Company lies principally in its cash and receivables to the extent of their carrying values and any accrued unpaid interest.

### *Cash*

The company invests in short-term bank backed securities, cash management units with the MF Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA or A.1 credit rating assigned by Standard & Poor's, being a Recognised Rating Agency.

### *Receivables*

Receivables are non-interest bearing and represent dividends, proceeds of sales and distributions yet to be received. The credit risk exposure of the Company in relation to receivables is the carrying amount.

Management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets are over due or considered to be impaired.

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Company monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities or liquid securities to meet all its financial obligations as they fall due.

Bank borrowings were \$83 million at the end of the financial year (previous year \$50 million) representing approximately 12% of the asset value of the Company. The Company has an interest bearing commercial bill facility in place with the National Australia Bank which includes both a fixed and floating rate bill component. This facility expires on various intervals through to 31 March 2014, unless it is renewed. Annual interest expense during the year was covered 9.6 times by investment revenue.

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

## Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is not free of market risk as it invests its capital in securities whose market prices can fluctuate.

Based on a tax rate of 30%, a general movement in market prices of 5% and 10% would lead to a change in the Company's equity of \$21,796,097 (or 4%) and \$43,592,194 (or 8%) respectively, after tax.

Market risk is moderated by ensuring that the Company's investment portfolio is not over exposed to one company or one particular sector. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Board frequently.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 19, which is controlled through conservative levels of gearing and ensuring that there is appropriate interest cover at all times.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

The Company's investment by sector is set out below:

	2009 %	2008 %
Energy	9	9
Materials/Resources	24	29
Industrials	4	5
Consumer Discretionary	4	5
Consumer Staples	9	8
Health Care	1	2
Financials	35	31
Real Estate	2	2
Telecommunications Services	2	2
Utilities	4	3
Cash	6	4
	100	100

All of the company's investments are quoted in Australian dollars therefore avoiding any direct exposure to currency risk. Nevertheless, a number of the underlying company's businesses may have currency risk exposures.

## 19. Financial Instruments Disclosure

### Interest Rate Risk

The Company's exposure to interest rate risk as at 30 June 2009 and the effective weighted average interest rate for classes of financial assets which bear interest is set out below.

	Note	Floating Interest Rate \$	Total \$
<b>Financial Assets – 2009</b>			
Cash	16	22,267,330	22,267,330
Weighted Average Interest Rate		4.49%	
<b>Financial Assets – 2008</b>			
Cash	16	2,411,899	2,411,899
Weighted Average Interest Rate		6.78%	

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

The Company has secured borrowing facilities in place with the National Australia Bank Ltd totalling \$83,000,000 (2008: \$50,000,000) as follows:

Amount	Maturity	Interest Rate
\$10,000,000	31 March 2010	Fixed 5.99%
\$7,000,000	31 March 2010	Floating 3.30%
\$10,000,000	31 March 2011	Fixed 6.00%
\$7,000,000	31 March 2011	Floating 3.30%
\$10,000,000	31 March 2012	Fixed 6.02%
\$7,000,000	31 March 2012	Floating 3.30%
\$10,000,000	31 March 2013	Fixed 6.65%
\$5,000,000	31 March 2013	Floating 3.30%
\$17,000,000	31 March 2014	Floating 3.30%

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

Equities	No. of Shares	Value at 30 June 2009 \$
Alumina Ltd	4,350,000	6,285,750
BHP Billiton Ltd	2,000,000	69,440,000
ANZ Bank Ltd	1,750,000	28,857,500
NAB Ltd	1,000,000	22,440,000
Rio Tinto Ltd	762,500	39,802,500
Woodside Ltd	1,000,000	43,210,000
<b>Total</b>		<b>210,035,750</b>

The terms of the agreement require the market value of security to not fall below \$143 million and that no one share may make up more than 40% of the total value of shares pledged as security.

## Net Fair Values of Financial Assets and Liabilities

### Valuation Approach

Net fair values of financial assets and liabilities are determined by the Company on the following basis:

### Recognised Financial Instruments

Listed securities included in "Investments" are readily traded on organised markets in a standardised form. The net fair value of listed securities is determined by valuing them at the last quoted sale price as 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 8.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

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## **20. Contingent Liabilities and Capital Commitments**

There were no contingent liabilities or capital commitments as at 30 June 2009.

## **21. Segment Reporting**

The Company operates as an investment company in Australia.

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

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial periods.

# DIRECTORS' DECLARATION

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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 16 to 34, and the remuneration disclosures that are contained in the Remuneration report on page 13 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company as at 30 June 2009 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) The financial report also complies with International Financial Reporting Standards.
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2009.

*Dated at Melbourne this 19th day of August 2009.*

Signed in accordance with a resolution of the directors.



Charles Goode  
Director

# AUDITOR'S REPORT



## **Independent auditor's report to the members of Australian United Investment Company Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Australian United Investment Company Limited (the Company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a statement of significant accounting policies and other explanatory notes 1 to 22 and the directors' declaration set out on page 35.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# AUDITOR'S REPORT

continued



## *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## *Auditor's opinion*

In our opinion:

(a) the financial report of Australian United Investment Company Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

## **Report on the remuneration report**

We have audited the Remuneration Report included on page 13 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

## *Auditor's opinion*

In our opinion, the remuneration report of Australian United Investment Company Limited for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Michelle Somerville  
*Partner*

Melbourne

19 August 2009

# ADDITIONAL INFORMATION

## Distribution of shareholders as at 31 July 2009.

Category Holders	Ordinary Shares	No of Holders	%
1-1,000	222,457	426	0.23
1,00-15,000	3,588,767	1,295	3.69
5,001-10,000	4,580,084	633	4.70
10,001 and 100,000	13,065,807	591	13.42
100,001 and over	75,902,769	32	77.96
	97,359,884	2,977	100.00

There were 36 ordinary shareholders holding less than a marketable parcel (77 shares) at 31 July 2009.

## Substantial Shareholders

The number of shares held by substantial shareholders and their associates as at 31 July 2009 are set out below:

Substantial Shareholder	No. of Shares
The Ian Potter Foundation Limited and Dundee Trading Pty Ltd	38,516,614
Argo Investments Ltd	17,338,153
Lady Primrose Catherine Potter, Primrose Properties Pty Ltd and Decerna Pty Ltd	7,725,213

## Voting Rights

All ordinary shares carry equal voting rights.

# ADDITIONAL INFORMATION

continued

## Twenty Largest Equity Security Holders

The twenty largest shareholders, listed below as at 31 July 2009, hold 74,463,351 ordinary shares which is 76.48% of the issued capital.

### Ordinary Shares

Shareholder Name	No. of Shares	% Held
1. The Ian Potter Foundation Ltd	36,273,330	37.26
2. Argo Investments Ltd	17,338,153	17.81
3. Primrose Properties Pty Ltd	6,414,435	6.59
4. Robin Bernice Potter	5,475,000	5.62
5. Dundee Trading Pty Ltd	2,243,284	2.30
6. The Miller Foundation Ltd	1,600,000	1.64
7. Lady Primrose Catherine Potter	750,640	0.77
8. UBS Wealth Management Australia Nominees Pty Ltd	739,725	0.76
9. Daryl Albert Dixon & Katherine Dixon	640,714	0.66
10. Beta Gamma Pty Ltd	607,946	0.62
11. Decerna Pty Ltd	560,138	0.58
12. Matluc Nominees Pty Ltd	288,443	0.31
13. Pardis Pty Ltd	248,001	0.25
14. Duesburys Services Pty Ltd <Carolyn Anne Parker Bowles>	225,490	0.23
15. Chickenfeed Pty Ltd	197,140	0.20
16. Mrs Sheila Clare Audas Pitt	190,000	0.20
17. The Manly Hotels Pty Ltd	187,500	0.19
18. Mr Donald Graham Paech	180,000	0.18
19. Dottie Investments Pty Ltd	152,772	0.16
20. Ella Mae Somerville	150,640	0.15
	74,463,351	76.48

### Brokerage Paid

The amount of brokerage paid or charged to the Company during the financial year ended 30 June 2009 totalled \$77,268 (2008: \$92,989). None of that brokerage was paid to any stock or sharebroker, or any employee or nominee of any stock or sharebroker, who is an officer of the Company.

# LIST OF INVESTMENTS

as at 30 June 2009

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.

		30/6/2009			30/6/2008
	Market Value \$	% of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustments	Units Held
<b>Retailing (8.9%)</b>					
Wesfarmers Ltd	30,577,500	4.6	1,350,000	450,000 Purchased	900,000
Wesfarmers Ltd PPS	2,350,000	0.3	100,000	-	100,000
Woolworths Ltd	26,360,000	4.0	1,000,000	-	1,000,000
<b>Oil &amp; Gas (8.7%)</b>					
Australian Worldwide Exploration Ltd	2,570,000	0.4	1,000,000	-	1,000,000
Santos Ltd	11,712,000	1.8	800,000	600,000 Purchased	200,000
Woodside Petroleum Ltd	43,210,000	6.5	1,000,000	-	1,000,000
<b>Chemicals (2.9%)</b>					
Orica Ltd	19,548,000	2.9	900,000	150,000 Purchased	750,000
<b>Construction Material (0.5%)</b>					
Bluescope Steel Ltd	3,036,000	0.5	1,200,000	-	1,200,000
James Hardie Industries Ltd	-	-	-	400,000 Sold	400,000
<b>Metals &amp; Mining (20.3%)</b>					
Alumina Ltd	14,002,050	2.1	9,690,000	5,190,000 Purchased	4,500,000
BHP Billiton Ltd	72,912,000	11.0	2,100,000	-	2,100,000
Rio Tinto Ltd	47,763,000	7.2	600,000	-	600,000
<b>Building Products (0.2%)</b>					
GWA International Ltd	1,610,000	0.2	700,000	-	700,000
<b>Trading Co &amp; Distributors (0.7%)</b>					
Alesco Corporation Ltd	4,606,800	0.7	1,320,000	-	1,320,000
<b>Commercial Services Supplies (1.6%)</b>					
Brambles Ltd	10,728,000	1.6	1,800,000	-	1,800,000
<b>Air Freight &amp; Couriers (0.3%)</b>					
Toll Holdings Ltd	1,875,000	0.3	300,000	-	300,000

# LIST OF INVESTMENTS

as at 30 June 2009

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.

	30/6/2009		Units Held	Capital Movements or Portfolio Adjustments	30/6/2008
	Market Value \$	% of Portfolio at Market Value			Units Held
<b>Transportation Infrastructure (1.1%)</b>					
ConnectEast Group	-	-	-	3,000,000 Sold	3,000,000
Macquarie Airports	1,155,000	0.2	500,000	-	500,000
Macquarie Communications Infrastructure Group	-	-	-	750,000 Sold	750,000
Transurban Group	6,270,000	0.9	1,500,000	-	1,500,000
<b>Hotels Restaurants &amp; Leisure (2.5%)</b>					
Crown Ltd	-	-	-	468,220 Sold	468,220
Tabcorp Holdings Ltd	11,456,000	1.7	1,600,000	-	1,600,000
Tatts Group Ltd	5,610,000	0.8	2,200,000	-	2,200,000
<b>Media (1.9%)</b>					
APN News & Media Ltd	885,000	0.1	600,000	100,000 Purchased	500,000
Amalgamated Holdings Ltd	4,300,000	0.7	1,000,000	-	1,000,000
Consolidated Media Holdings Ltd	1,224,088	0.2	539,246	71,026 Purchased	468,220
News Corporation Inc Class B Common CDI	4,679,500	0.7	350,000	-	350,000
Village Roadshow Ltd 'A' Class Pref	1,280,000	0.2	2,000,000	-	2,000,000
<b>Health Care Providers &amp; Services (1.5%)</b>					
CSL Ltd	9,645,000	1.5	300,000	-	300,000
Ramsay Health Care Ltd	-	-	-	300,000 Sold	300,000
<b>Banks (23.2%)</b>					
Australia & New Zealand Banking Group Ltd	43,698,500	6.6	2,650,000	725,000 Purchased	1,925,000
Commonwealth Bank Of Australia Ltd	33,011,784	5.0	846,456	246,456 Purchased	600,000
National Australia Bank Ltd	32,538,000	4.9	1,450,000	150,000 Purchased	1,300,000
St George Bank Ltd	-	-	-	450,000 Disposed in takeover	450,000
Westpac Banking Corporation	44,550,000	6.7	2,200,000	589,500 Acquired in takeover, 260,500 Purchased	1,350,000

# LIST OF INVESTMENTS

as at 30 June 2009

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.

	30/6/2009				30/6/2008
	Market Value \$	% of Portfolio at Market Value	Units Held	Capital Movements or Portfolio Adjustments	Units Held
<b>Diversified Financials (5.8%)</b>					
Diversified United Investment Ltd	31,200,000	4.7	12,000,000	-	12,000,000
IOOF Holdings Ltd	-	-	-	500,000 Sold	500,000
Macquarie Group Ltd	-	-	-	100,000 Sold	100,000
Over Fifty Group Ltd	380,711	0.1	917,376	62,190 Sold	979,566
Perpetual Ltd	7,137,500	1.0	250,000	-	250,000
Suncorp Metway Ltd	-	-	-	1,000,000 Sold	1,000,000
<b>Insurance (6.1%)</b>					
AMP Ltd	4,880,000	0.7	600,000	-	600,000
AXA Asia Pacific Holdings Ltd	11,670,000	1.8	3,000,000	500,000 Purchased	2,500,000
Henderson Group Plc	3,860,000	0.6	2,000,000	-	2,000,000
Insurance Australia Group Ltd	-	-	-	549,809 Sold	549,809
QBE Insurance Group Ltd	19,900,000	3.0	1,000,000	150,000 Purchased	850,000
<b>Diversified Telecommunication Services (2.0%)</b>					
Telstra Corporation Ltd	13,560,000	2.0	4,000,000	-	4,000,000
<b>Gas Utilities (3.6%)</b>					
AGL Energy Ltd	9,415,000	1.4	700,000	-	700,000
Origin Energy Ltd	11,712,000	1.8	800,000	-	800,000
SP AusNet	2,887,500	0.4	3,750,000	750,000 Purchased	3,000,000
<b>Listed Property Groups (2.0%)</b>					
Westfield Group	12,979,698	2.0	1,140,571	140,571 Purchased	1,000,000
<b>Cash Trust &amp; Other Deposits (6.2%)</b>					
Cash Trust units, Bank deposits and receivables	41,212,821	6.2	41,212,821		7,440,101
Bank Bills	-	-	-		29,827,872
<b>Total</b>	<b>663,958,452</b>	<b>100.0%</b>			





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