

AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 56th ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 14 OCTOBER 2010 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 and before net realised investment gains was \$26.6M compared to \$29.3M in the previous year – a decrease of 9%, or a decrease of 6% if special dividends received are excluded.

The operating profit reflects a decline in dividends and trust distributions received, a decline in interest received, an increase in interest paid, and this year some option premium received.

The operating earnings per share excluding net realised gains and excluding special dividends were 26.9 cents, compared to 29.6 cents for the previous year. The fall in earnings per share also reflects the increase in the weighted average number of ordinary shares for the year from 96 million to 99 million, an increase of 3%.

This year no special dividends were received. In 2009, special dividends of \$901,920 after tax were received.

The total net profit after tax for the year is \$27.4M compared to \$18.8M in 2009. Last year the accounting standards required both realised and some unrealised losses to be included in the calculation of total profit. This year only realised gains and losses to the date of adoption of accounting standard AASB 9 on 7 December 2009 were included in the income statement. After that date, under the new accounting standards, realised gains and losses are transferred directly to the Asset Realisation Reserve.

Bank borrowings were \$96M at the end of the financial year (previous year \$83M) amounting to around 12% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$12M, or 2% of the investment portfolio at market values (previous year \$41M, or 6%).

Annual interest expense was covered 6 times by investment revenue.

\$20.6M of new equity was raised in April 2010 through a share placement at \$7.28 per share. Last month, in the current financial year, we also raised \$15.6M through a share purchase plan offer to all shareholders at \$6.42 per share.

The Company's operating expenses (excluding borrowing costs) expressed as a percentage of the average market value of the portfolio were equivalent to 0.15%, compared to 0.13% last year.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was \$6.68 at 30 June 2010, compared to \$6.02 at 30 June 2009.

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

To 30 June 2010	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	14.8	15.7	13.1
3 Years	(7.6)	(5.5)	(8.1)
5 Years	5.3	7.1	4.5

The final dividend for the year ending 30 June 2010 is 14 cents per share fully franked which, with the interim dividend of 11.5 cents per share fully franked, makes a total dividend for the year of 25.5 cents per share fully franked, an increase of half a cent on last year.

The final dividend did not include any Listed Investment Company capital gain dividend.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 41 companies. The Annual Report provides a list of the shareholdings at 30 June 2010 and 30 June 2009; 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 2010.

Continued over

The largest investments in terms of market value at balance date were BHP Billiton, Rio Tinto, ANZ Bank, Woodside Petroleum, Westpac Bank and National Australia Bank. These six investments at 30 June 2010 comprised 44% of the portfolio and our twenty-five largest investments comprised 91% of the portfolio.

In the year to 30 June 2010 the portfolio was revalued up by \$62M to a market value of \$762M (2009: revalued down by \$192M to a market value of \$623M), the change being taken directly to the asset revaluation reserve.

The share portfolio was invested as to 73% in the top 20 companies by market capitalisation; 13% in companies 21 to 50 in size; 5% in companies 51 to 100; and 9% in companies outside the largest 100 companies.

At 30 June 2010 the main sectors of the portfolio were Resources 29%, Banking 26%, and Retailing 10%. Cash on hand and short term receivables at 30 June 2010 were 1.6% of the portfolio.

Since the end of the financial year, we have sold our Dulux holding (received by way of distribution from Orica) and our Foster's Group holding. We have increased our holdings in Trust Company, Tabcorp and Commonwealth Bank.

As at 30 September 2010 the main sectors of the portfolio were Resources 30%, Banking 27%, Retailing 10%, Diversified Financials 5% and Insurance 5%.

Our net asset backing per share based on investments at market values and after provision for tax on net realised gains, but not unrealised gains, and after provision for the final dividend was \$6.54 at 30 June, 2010 and \$7.11 at 30 September, 2010.

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 2010 was \$5.78 per share and at 30 September 2010 was \$6.21.

Outlook:

We see reasonable growth this year in the world economy based on growth in Asia, particularly in China, and in Australia.

The United States is likely to show a hesitant and weak recovery as it struggles with financing a war in Iraq and Afghanistan without raising taxes which contributes to its significant budget deficit. It also has a balance of payments on current account deficit, 9.6% unemployment, a weak and over-provided housing market and a community that needs to adjust to more savings and less consumption. We think, however, that it will probably not have a double-dip recession and the share market may well move ahead in anticipation of a stronger recovery a year or two out.

In Europe the recovery is likely to be weaker than in the US and more drawn out as economic policies are more focussed on cutting government expenditure, increasing taxes, and restoring balanced budgets. There is also considerable variation in the weakness of various economies in Europe.

We consider we are fortunate to be invested in Australia with its strong, growing economy and franked dividends. Our Australian companies now have strong balance sheets and the prospective price-earnings ratios are reasonable in relation to those experienced over the last two decades. We expect a modest increase in our dividend income in the year ahead and see the prospect of reasonable capital appreciation in the portfolio.

Graeme Moir has advised us of his intention to retire at the conclusion of this Annual General Meeting. Graeme is our longest serving director having joined the Board in 1976. During this period he has made a significant contribution, especially to our investment selection. We will miss him and thank him for his valuable and long service and wish him well in his retirement.

Charles Goode
Chairman