MILTON CORPORATION LIMITED
2011 ANNUAL GENERAL MEETING
TO BE HELD THURSDAY, 13 OCTOBER 2011 AT 3 PM
AT THE LYCEUM ROOM, WESLEY CONFERENCE CENTRE,
220 PITT STREET, SYDNEY

CHAIRMAN'S ADDRESS

Milton's underlying operating profit after tax for the 2011 financial year was $90.5 million. This result was influenced by the merger with Choiseul Investments Limited in December 2010 and by sound dividend increases from many of the companies in the equity investment portfolio.

The merger with Choiseul brought together two listed investment companies with similar objectives and investment philosophies. The Choiseul equity investment portfolio complemented the Milton portfolio and all companies in the Choiseul portfolio contributed to the overall growth in the underlying operating profit of the combined group.

The Choiseul shareholders received New Milton Shares as consideration for their Choiseul shares and consequently Milton's share register was expanded significantly and Milton now has approximately 19,400 shareholders.

The weighted average earnings per share, based on the underlying operating profit for the year, increased by 9.6% to 80.8 cents compared with 73.7 cents per share for the 2010 financial year.

The underlying operating profit per share, which excludes "one off" items such as special dividends and the costs of acquisitions of subsidiaries, is one of the key performance measures that your directors take into account when considering the declaration of ordinary dividends.

Over the last ten years Milton has generally paid out 90% to 95% of underlying operating profit as fully franked dividends each year. However the payout ratio may change from time to time, as it did in 2010 when the payout ratio was 98%. In that instance the board was optimistic that dividend income growth would resume in the 2011 year and this would enable the company to pay higher dividends while keeping the payout ratio in the preferred range.

The increase in dividend income did eventuate and so we were pleased to have increased both the interim and final ordinary dividends. The interim fully franked dividend was increased by 2 cents per share to 37 cents per share and the final fully franked dividend of 39 cents per share was 3 cents per share higher than the previous final dividend.

In 2011 the “one off” items comprised special investment revenue of $3.6 million and the after tax cost of acquisitions of subsidiaries of $0.2 million. The net profit after tax for the year, which combines these “one off” items with the underlying operating profit for the year, was $93.9 million.

Milton declared a special fully franked dividend of 5 cents per share to pass on the benefits of the special investment revenue received in the years since the 2008 fully franked special dividend of 8 cents per share was paid.

At 30 June 2011, Milton’s net tangible assets before provision for tax on unrealised capital gains, were valued at $2.1 billion or $17.36 per share compared with $16.51 per share at 30 June 2010.

Over that same period however the company’s share price has moved from $15.98 to $15.60 per share. This means that the company’s share price was trading at a discount of 10.1% at 30 June 2011 compared with a discount of 3.2% a year earlier.

Your directors consider the issuing of shares at a substantial discount to the net tangible assets is not in the best interests of the company and the shareholders as a whole.

Consequently the issue of additional shares under the Share Purchase Plan has been suspended. The position will continue to be reviewed and an offer of shares under the Share Purchase Plan will be made when the directors consider it to be appropriate.

In the meantime Milton has sufficient cash reserves to enable it to participate in opportunities that may arise in the current volatile market conditions.

At the conclusion of this meeting Mr Aitken will retire as a non executive director. Mr Aitken joined the Milton board in December 2001 after Milton completed the acquisition of Cambooya Investments. He has served on the Audit Committee and the Investment Committee and I would like to thank John for his hard work and the contribution he has made over the last 10 years.

We acknowledge the benefits of diversity and accordingly the search for a new director involves discussions with both male and female candidates. However the board is committed to identifying the best person for the role.

One of the items on the agenda to be considered today is an increase to the maximum directors' remuneration. One of the reasons this increase is being sought is to provide capacity for additional directors to be appointed if it is considered appropriate.

The equity markets are likely to continue to be volatile while there is uncertainty about the outlook for Europe and the US and many investors remain focused on the short term.

There is also uncertainty on the home front with an unstable minority government and the impact of higher taxes such as the carbon tax, mining taxes and flood levies.

This volatility is likely to produce sound long term investment opportunities and Milton will seek to take advantage of these opportunities by investing in well run companies that have predictable earnings and are likely to pay increasing dividends.

At this point in time it is difficult to predict Milton's results for the half year and full year, however, I can report that Milton's underlying earnings per share for the three months to 30 September 2011 were higher than in the previous corresponding period.

We remain optimistic that Milton will be able to at least maintain its full year, fully franked ordinary dividends of 76 cents per share in the 2012 financial year.

Finally I would like to thank my fellow directors and the management and staff of Milton for their efforts throughout the year.

MANAGING DIRECTOR’S ADDRESS

When I was preparing for this report I reflected on the events of the past year.

At the beginning of the 2011 financial year the global and domestic economies appeared to be recovering from the GFC and the share market was strengthening. Then early in the new year Queensland was hit by floods and a cyclone and Christchurch was devastated by an earthquake in February as was Japan in March.

Substantial civil unrest in North Africa and the Middle East commenced with protests in Tunisia in December 2010 and then in January 2011 continued on in other countries in the region.

While the equity markets reacted negatively initially to each of these events, they did recover reasonably quickly but were then affected by the uncertainty caused by the on going sovereign debt issues in Europe and the ailing US economy. These latter issues are continuing to weigh on the market today.

In Australia we are fortunate that we have a strong resources sector that can leverage off the growing Asian economies and we have a strong banking sector.

The volatile share prices are a cause for concern. However we are seeking to provide a growing fully franked dividend stream to our shareholders as well as an increase in the value of our shareholders’ investments over the long term and therefore we have sought to take advantage of the volatility by investing in companies when we think the shares have been oversold.

Milton’s earnings from its equity investments in the 2011 financial year amounted to $89 million, a 38% increase over the previous year. This result was due to improved dividend receipts as well as a greater level of investments.

During the 2010 and 2011 financial years Milton continued to increase its equity investment portfolio. Acquisitions of unlisted investment companies have added $106 million over the two years and the merger with Choiseul in December 2011 added a further $409 million.

As a consequence of the Choiseul merger, Milton's first half underlying operating profit was lifted by the early receipt of Choiseul's interim dividend of $1.2 million. Underlying operating profit for this half was $42.9 million or 41.9 cents per share on a weighted average basis.

The full year underlying operating profit was $90.5 million compared with $68.9 million in the prior year.

Milton's second half earnings benefited from 100% ownership of the Choiseul portfolio for the entire six month period and the underlying operating profit for this half was $47.6 million or 38.9 cents per share.

Milton's Top 30 investments by market value at 30 June 2011 were valued at $1.6 billion and represent approximately 83% of the total equity investment portfolio. These stocks earned $71 million or 80% of the total investment income for the year.

An analysis of the full year dividend earnings from these stocks reveals that:

- Only two had lower dividends per share in the 2011 year compared with the 2010 year. They were BHP Billiton and Santos. BHP did increase its dividend in US dollar terms but our receipts were affected by the stronger Australian dollar. Santos lowered its dividend to help fund its longer term capital requirements.

- Six maintained their dividend per share at the same level as last year, and

- Twenty two increased their dividend per share.

Generally the rate of increase in dividends was greater in the first half than the second half.

The banking sector overall provided good increases in dividends. Westpac, Commonwealth Bank and ANZ have increased their dividends per share above the pre GFC level. NAB, Bendigo and Adelaide Bank and Suncorp paid higher dividends per than the previous year while Bank of Queensland and Macquarie Group maintained their dividends per share.

The increase in dividend per share from Campbell Brothers during the year was 40%. This is an outstanding result especially as the company did not reduce its full year dividend during the GFC. Other companies such as Rio Tinto and Sims Group did have larger percentage increases for the year but they were recovering from a lower base.

Milton also received special dividends of $3.6 million during the year with the major contributors being Choiseul Investments with $ 1.8 million, Washington H Soul Pattinson with $ 0.6 million, Crane Group with $0.4 million and Adtrans Group with $0.2 million. These special dividends are treated as "one off" items and are not included in underlying operating profit.

Milton's equity investment portfolio was valued at $1.9 billion at 30 June 2011. This was approximately $0.5 billion more than the prior year. The increase in value included net revaluations of $58 million with the balance consisting of direct purchases and portfolio acquisitions.

The acquired portfolios did not bring any new companies to the portfolio, however the weighting of stocks in the acquired portfolios differed from their weighting in the Milton portfolio.

For example the combined weighting of the banking sector in the acquired portfolios was less than 30% whilst Milton had a little more than 31% of its total assets invested in the banking sector.

Milton’s weighting in the banking sector has remained steady over the year at around 31.7 %. We remain comfortable with these holdings. The Australian banks are well capitalised, well managed and well supervised by APRA, the regulator. Over the last year they have generated sound earnings growth and dividend growth and consensus estimates have the banks growing earnings and dividends next year as well, albeit at a lower growth rate.

The acquired portfolios also increased Milton’s weightings in BHP Billiton, Brickworks, Campbell Brothers, QBE and Washington H Soul Pattinson.

Companies added to the portfolio during the year through direct acquisitions were Automotive Holdings Group, Qube Logistics and Ramsay Health Care.

Other companies new to the portfolio due to corporate activity were: Fletcher Building Group which was part of the consideration for the takeover of Crane Group, Seven West Media which is the new name for West Australian News following its acquisition of Seven Media Group, Treasury Wine Estates which demerged from Foster’s Group and Westfield Retail Trust following the restructure of Westfield Holdings.

Companies in the Materials sector made up almost 13% of Milton’s total assets at 30 June 2011. The largest holding in this sector is the $137 million of BHP Billiton, followed by an investment of $37 million in Rio Tinto.

Milton also has exposure to the resource sector through stocks that are in other sectors but they provide services to the resource sector such as Bradken, Campbell Brothers, Cardno, Sedgman, UGL and Worley Parsons. In addition Milton’s interest in Washington H Soul Pattinson provides an indirect interest to New Hope Coal. All of these investments are expected to deliver earnings growth and dividend growth to Milton.

Since the end of the financial year the volatility of the market has provided opportunities to acquire shares at prices that we believe will provide sound long term value. Milton has taken advantage of some of these opportunities by increasing its investment in 40 companies by a total of $20 million.

The larger investments have been in AGL Energy, Amcor, BHP Billiton, Coca Cola Amatil, Origin Energy, Wesfarmers and Woolworths.

Milton continues to hold sufficient cash to further invest as new opportunities are identified and this cash level will increase if the takeovers of Coal and Allied Industries, Macarthur Coal and Foster's Group are completed.

Since the end of the financial year most of the companies in Milton's equity investment portfolio reported their results and announced their dividends to be paid in this half. The results were mixed with some sound dividend increases however there were some disappointments.

Overall dividend income improved with increases from the likes of A P Eagers, ASX, BHP Billiton, Commonwealth Bank and IAG helping to offset the lower dividends from companies such as Bluescope Steel, Coal & Allied and Leighton Holdings.

Some of the lower dividends were anticipated and incorporated in Milton's profit forecasts for the 2012 year. Pleasingly, Milton's underlying earnings for the quarter were higher than originally forecast and this provides further confidence that the full year ordinary dividend of 76 cents per share can at least be maintained.

I would now like to discuss Milton's performance for the year.

Milton's objective is to pay increasing fully franked dividends to shareholders and so we were pleased that Milton's underlying earnings per share improved by 9.6% to 80.8 cents and its full year fully franked ordinary dividend increased by 7% to 76 cents per share. In addition Milton declared a fully franked special dividend of 5 cents per share.

We consider dividends to be an essential element of shareholder's total returns which also consist of unrealised capital gains. In a bear market the unrealised capital gains reduce and the importance of the dividend component becomes more evident. Total returns that include a higher dividend component tend to be less affected by falling markets than total returns that comprise mostly capital gains.

Milton also aims to increase the value of its shareholders investment. If this value is measured by net tangible asset backing per share then the company was successful in that its net tangible assets per share increased by 5.1% over the year.

If the dividends paid during the year are added to the increase in net asset backing per share the total return was 9.6%.

However if the value of its shareholders' investment is measured by share price then the movement in value was a loss of 2.4% and the total return was a gain of 2.2%.

It is important to note that the total returns are affected by the tax paid by the company, which over the last ten years amounted to $42.6 million as well as the costs of managing the company. This does make comparison with the accumulation returns of the ASX indices difficult as they are not adjusted for tax payments or management costs.

The difference between the returns based on NTA and share price is due to the change in the discount at which the Milton shares have traded relative to its net asset backing. At 30 June 2011 the shares were trading at a discount of 10.1% whereas one year earlier they were trading at a discount of 3.2%.

The graph shows the movement in the premium or discount at which Milton shares have traded relative to the NTA over the last 10 years and it is clear that the discount to NTA has expanded over the year.

This trend is not unique to Milton. As many Australians have increased the level of their cash investments, the amount of funds directed towards equity investment has reduced. It would appear that the uncertainty that has affected the market as a whole has also affected the discount at which LICs are currently trading. The liquidity in Milton's shares has improved and the discount may narrow as the equity market improves.

The effect of the discount to NTA on performance is less pronounced over the longer term as can be seen by the ten year compound return using the NTA of 8.5% per annum and the ten year compound return using the share price of 7.8% per annum.

We are currently considering alternative ways of assessing the performance of LICs and promoting this to investors and advisers so that the benefits of an investment in a LIC are better appreciated by all.

Looking ahead it is not possible to predict how the equity market will perform in the short term, and so at Milton we will continue to focus our efforts on identifying value opportunities in those companies that we think have good management, a sound balance sheet, reliable earnings and are likely to pay increasing dividends.