MILTON CORPORATION LIMITED
2012 ANNUAL GENERAL MEETING
TO BE HELD TUESDAY, 16 OCTOBER 2012 AT 3 PM
AT THE LYCEUM ROOM, WESLEY CONFERENCE CENTRE,
220 PITT STREET, SYDNEY

WELCOME

Good afternoon ladies and gentlemen.

My name is Robert Millner and it is my pleasure to welcome you to the 74th Annual General Meeting of shareholders of Milton Corporation Limited.

As it is now 3pm I declare the meeting open.

Before we turn to the official business for the day I would like to take this opportunity to introduce you to the non executive directors and senior executives of Milton.

Starting from the far end we have the non executive directors: John Church, Graeme Crampton, Kevin Eley and Ian Pollard.

Next to Ian we have Roger Davison the company's secretary and then Frank Gooch, the managing director.

In addition, the company's auditor, Joe Shannon from Moore Stephens Sydney is in attendance.

The notice of annual general meeting has been circulated to all shareholders. The holders of over 47.5 million shares or approximately 39 per cent of the company's ordinary shares have either lodged their proxy or voted on-line.

Following my report to the meeting I will ask Frank to provide an overview of the 2012 financial results of Milton and comment on the investment portfolio.

CHAIRMAN'S ADDRESS

The net profit after tax for the year ended 30 June 2012 was $103.4 million.

When your directors assess the company's performance we prefer to consider the underlying operating profit, which excludes special investment revenue.

Special investment income cannot be relied upon to recur each year and in the 2012 financial year it was $735,000 after tax compared with $3.6 million in the 2011 year.

The underlying operating profit for the 2012 year was $102.7 million, some 13.5% higher than the prior year.

The strong increase in profit can be attributed to the successful merger with Choiseul Investments in December 2010 as well as an increase in dividend income from many of the companies in the long term equity portfolio.

Earnings per share, based on underlying operating profit, increased by 4.5% to 84.4 cents per share. Importantly, this increase enabled the full year fully franked ordinary dividend to be increased to 78 cents per share, with each of the interim and final dividends being increased by 1 cent per share.

Milton's net tangible assets before provision for tax on unrealised capital gains, were valued at $2 billion or $16.42 per share at 30 June 2012. The assets included $1.8 billion of investments in a diversified portfolio of Australian listed equities and $132 million of cash and other liquid assets.

Milton remained reasonably fully invested with the equity portfolio representing more than 90% of total assets, however it has retained sufficient cash to enable it to participate in buying opportunities.

Milton does not attempt to "time" the market rather it seeks to invest for the long term in well managed companies and trusts with a profitable history and with the expectation of sound dividend growth.

This investment philosophy has served Milton's shareholders well as it has enabled the company to regularly increase its ordinary dividends and it has provided an increase in the value of their shareholdings over time.

This graph shows the annual ordinary dividends and special dividends paid by Milton on an initial investment of 1,000 shares when Milton listed in 1958. Through the subdivision of shares with the introduction of decimal currency and through the receipt of bonus shares, the number of shares held would have increased to 5,706 and they would have been worth $86,788 on 30 June 2012. The annual fully franked dividend paid on these shares, which cost £1,000 over 54 years ago, would now be $4,451.

In the earlier years the dividend payout ratio was quite low but in the latter years the ratio has increased significantly.

In 2011 and in 2012 Milton has paid out 92% of its underlying operating profit. The retention of some profits for reinvestment helps the company grow its earnings and provides a degree of comfort that the full year ordinary dividend can at least be maintained.

One of the benefits of being a closed end company is that the directors can determine if and when additional capital should be issued and this is considered by the board on a regular basis.

Capital issues such as the Share Purchase Plan can be an effective low cost means of raising additional funds for investment and can provide shareholders with an opportunity to increase their holdings at a discount.

The Share Purchase Plan was not offered to shareholders during the year as Milton has sufficient cash on hand and investors are able to buy Milton shares on market at a discount to its net asset backing. 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.

I would like to welcome Mr Kevin Eley to his first Milton AGM as a non executive director. Kevin joined the board on 1 December 2011 and is a member of the Audit Committee and the Investment Committee.

Kevin's appointment followed a lengthy process whereby a number of candidates, both female and male were interviewed. As a chartered accountant with extensive experience in the investment industry, Kevin was the ideal candidate.

Each of Milton's non executive directors has been involved with the investment industry for many years and this experience is especially important in the current investment environment.

Many of the issues that we identified at the AGM last year continue to weigh on the markets. Internationally the outlook for the European, US and Chinese economies is uncertain and domestically the economy is facing many headwinds.

Overall the profit reports received in the three months to September 2012 have been largely in line with our expectations.

However, some of the larger investments such as Westpac, National Australia Bank and ANZ, are yet to report their profits and dividends. Accordingly we are unable to forecast Milton's interim and full year results with any certainty.

We remain optimistic though, that Milton will be able to at least maintain its full year, fully franked ordinary dividends of 78 cents per share in the 2013 financial year.

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

I would now like to ask Frank to make his address.

MANAGING DIRECTOR'S ADDRESS

Today I would like to work through Milton's results to help you understand the major influences on the 2012 profit and then look at some of the ways that the company's performance is measured.

I will then review the portfolio and its major movements over the course of the year.

Profit review

Milton's ordinary income from operations in the 2012 financial year was $113.1 million. This comprised income from equities, income from cash and liquids and a share of joint venture profits.

The income from equities was predominantly ordinary investment income which exceeded $100 million for the first time in 2012. Total ordinary franked dividend income was $87.3 million and ordinary unfranked dividend income was $9.2 million. In addition trust distributions totalled $4 million.

Ordinary investment income in the first half of the year increased by almost 26% over the previous corresponding half primarily due to the addition of the Choiseul equity portfolio and to a lesser extent from the dividend rate increases from many of the companies held in the equity portfolio.

Ordinary investment income in the second half of the year was up by 3.2% due to increases in dividend rates.

Other income from equities included special investment revenue of $772,000 and other trading related gains of $515,000.

Income earned on the company's cash and liquid assets included $7.1 million in interest income and $400,000 in franked dividends earned on hybrid securities. All of Milton's cash is kept on deposit with Australian banks. During the year the cash was invested in longer term deposits which provided higher interest rates for most of the year even though the official rates were being lowered.

Unfortunately the lower rates will catch up with us as the term deposits mature.

Joint venture profits of $3.7 million were derived from the company's interest in the property developments in Western Australia.

Total administration expenses for the year were $3.2 million. These expenses, which include directors' fees, employment costs, as well as ASX listing fees and share registry costs, represent just 0.16% of the average total assets for the 2012 year.

Clearly dividend income is the major driver of Milton's performance. So let's drill down into the portfolio to identify which stocks affected the results the most.

Milton's top 30 holdings represent about 85% of the total market value of the equity portfolio and in 2012 these investments contributed 83% of the ordinary investment income.

This slide shows the dividend movements by each of the companies in the top 30. More of these companies increased their dividends than decreased and four kept their dividend equal to the previous year.

The stand out increases came from Campbell Brothers, now known as ALS, Washington H Soul Pattinson, A P Eagers and Rio Tinto all of which had increases of 20% or more.

With a third of Milton's assets being investments in the banking sector, dividends from these companies do have a significant influence on underlying profit. In 2012 we were pleased with the dividend increases from the banks as a whole. Whilst the rate of increase was lower than the strong growth of the prior year, it was slightly higher than we had anticipated.

Unfortunately lower dividends were received from Metcash, QBE, Perpetual, Macquarie Group, Santos, IAG and Woodside Petroleum.

Metcash actually increased its dividend for the year however the ex date of the final dividend was deferred to 3 July 2012 and so Milton was unable to recognise the income from that dividend in the financial year ended 30 June 2012. It will be recognised in the 2013 financial year.

Performance review

It is pleasing to be able to report that the Choiseul merger did increase the operating income as expected, without a corresponding increase in administration costs.

After taking into account the additional shares that were on issue for all of the 2012 financial year, the weighted average earnings per share, based on underlying operating profit, increased by 4.5% to 84.4 cents.

Other measures of performance include growth in dividends, movement in share price and net asset backing per share or a combination of all of the above.

Milton’s objective is to hold a diversified portfolio of assets that does two things. The first is to generate a growing income stream for distribution to shareholders. Milton’s track record of consistently increasing dividends over the long term is evidence of its success in this regard.

Secondly Milton’s assets should provide capital growth in the value of the shareholders’ investments over time. With 91% of Milton’s total assets being long term investments in listed equities its success depends on stock selection and the performance of the equity market.

Milton’s portfolio is not aligned with any index as Milton’s selection criteria are more focused on dividend sustainability than market capitalisation. However as many of Milton’s larger investments are also large constituents of the major indices, its NTA movements are highly correlated with those of the major indices.

The chart on the screen compares the monthly movement of Milton's NTA with the monthly movement of the All Ordinaries Index since 30 June 2000. You can see from this chart the two do move along a similar path but there are periods when one outperforms the other.

In that particular period Milton's NTA increased by 70% from $9.66 to $16.42 while the index increased by 27% from 3258 to 4135.

The Total Portfolio Return or "TPR" is a combination of NTA movement and dividends paid. The TPR is an indicator of portfolio performance and is usually compared with the accumulation return of the All Ordinaries Index and you can see on this slide that Milton's portfolio has performed relatively well over a range of periods to 30 June 2012.

The Total Shareholder Return or "TSR", which is a combination of share price movement and dividends paid also performed relatively well over the same periods of time. Milton's TSR over the 12 years to 30 June 2012 was 9.3% per annum.

The variance between the TPR and TSR is caused by the shares trading at a premium or a discount to the NTA. The following graph shows the relativities over the 12 year period.

Milton shares were trading at a discount of 7.6% in June 2000 and 12 years later they were trading at a discount of 7.4%. You can see that the TPR and TSR over the 12 year period were both 9.3% per annum.

These returns do not take into account the benefit of the franking credits attached to the dividends paid and are effectively after all expenses.

These graphs do not show how much of the return is based on unrealised capital gains and how much is based on dividends actually paid to shareholders. As an investor myself I prefer more of my return in cash payments than unrealised capital gains. This way I can decide whether I want to reinvest the cash or utilise it for my day to day needs.

The one year TSR was 3.0%. The dividend income return of 5.3% was offset by an unrealised capital reduction of 2.3%. Once again this demonstrates the benefits of investing in companies that pay dividends.

These graphs do show that Milton's investment philosophy has delivered relatively sound returns over the long term.

Portfolio review

At 30 June 2012 the $1.8 billion investment portfolio comprised 107 companies and trusts which are listed on the ASX. Of this $637 million was invested in the banking sector, $203 million in the diversified financials sector, $203 million in the materials sector and $197 million in the consumer staples sector.

These are long term investments that generate good dividend streams and they are not sold because one is expected to "outperform" another over short periods of time.

All of the banks in which Milton is invested have strong management teams, they are very well supervised by APRA and they are participants in a very stable financial system. I expect they will remain profitable and marginally increase their earnings over the next year and I expect they will at least maintain their fully franked dividends.

During the year Milton outlaid a total of $49 million to increase its investments in 45 companies spread over a number of sectors. The larger increases were AGL Energy, Amcor, Bank of Queensland, BHP Billiton, Cardno, and Telstra.

The disposals totalled $34 million and were mainly related to the takeovers of Coal & Allied Industries, Foster's Group and Macarthur Coal. Holdings in companies operating in some structurally challenged sectors were also reduced during the year.

This table was included in the Annual Report and has a large amount of detail. It shows the additions, disposals, dividend income and the total return of each sector for the year.

The total return includes some strong positive returns with four of the better performing companies being A P Eagers in the retailing sector, Campbell Brothers in commercial services, Cardno in capital goods and Telstra in telecommunications.

Whilst the majority of the sectors did contribute positively to the overall total return there were five sectors that detracted from the performance. The negative returns in these five sectors were largely due to unrealised devaluations of Milton’s holdings in the diversified miners, BHP Billiton and RIO Tinto which are in the material sector, in Santos and Woodside Petroleum in the energy sector, QBE in the insurance sector, Leighton Holdings in the capital goods sector and Seven West Media in the media sector.

<u>**Outlook**</u>

This next slide is actually straight out of the 2011 AGM presentation. I think all of the points made then still apply today and will take some time to turn around.

In the August reporting season very few companies were able to provide any reliable outlook statements so it is difficult for us to predict our results for 2013. However we do expect to be able to at least maintain the ordinary dividend payments to shareholders.