MILTON CORPORATION LIMITED
2014 ANNUAL GENERAL MEETING
TO BE HELD THURSDAY, 16 OCTOBER 2014 AT 3 PM
AT THE UNSW CBD CAMPUS
LEVEL 7, 1 O'CONNELL STREET, SYDNEY

WELCOME

Good afternoon ladies and gentlemen.

My name is Robert Millner and it is my pleasure to welcome you to the 76th 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 Nishantha Seneviratne, 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 193 million shares or approximately 30 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 2014 financial results of Milton and comment on the investment portfolio.

CHAIRMAN'S ADDRESS

Net profit after tax for the 2014 financial year was $120.3 million out of which Milton declared ordinary fully franked dividends of $110.7 million and a special fully franked dividend of $2.5 million.

On 30 June 2014 the net assets before provision for tax on unrealised capital gains were valued at $2.7 billion, up 15.6% from a year ago. The net assets include a portfolio of diversified Australian listed equities valued at almost $2.6 billion.

The increase in net assets was largely attributable to an uplift in the market value of the portfolio of investments and to a lesser extent a greater number of shares on issue.

Importantly the increase in the size of your company did not lead to a corresponding increase in overheads and the annual administration costs as a percentage of average total assets reduced to 0.125%.

At the annual general meeting last year Frank discussed Milton's value proposition. This value proposition remains valid today.

The first key element of the value proposition is to pay reliable fully franked dividends and in 2014 the interim dividend was increased to 8.2 cents per share and the final dividend was increased to 9.4 cents per share.

The full year ordinary dividend of 17.6 cents per share, which was 7.3% higher than the prior year, absorbed approximately 94% of underlying operating profit. In general your directors consider the appropriate payout ratio to be between 90% and 95%.

A special fully franked dividend of 0.4 cents per share was also declared as Milton received $3 million in special investment revenue during the year. Milton has now paid three special dividends totalling 1.9 cents per share over the last five years.

The Dividend History chart shows that Milton has paid a dividend every year since listing in 1958 and, except for the 2009 and 2010 years, no full year ordinary dividend has been less than that paid in the prior year.
If you were fortunate enough to invest £1,000 in Milton shares in 1958 your annual dividend would now be $5,021 and your shares would have been valued at $129,530 on 30 June 2014.

The second key element of the value proposition is to provide shareholders with exposure to a diversified portfolio of Australian listed equities. Milton's portfolio comprises approximately 100 companies and trusts that are listed on the Australian Securities Exchange and which operate in various sectors across a range of geographies.

With the listed equity investments valued at $2.6 billion and representing almost 94% of total assets Milton is reasonably fully invested.

Frank will discuss the portfolio in more detail in his report.

The third key element is to provide low cost professional management of the company. Over the five years from 2010 to 2014 growth in operating costs has been restrained so that the operating costs as a proportion of average total assets have fallen from 17 basis points to 12.5 basis points.

In that same period the net assets have increased from $1.6 billion to $2.7 billion and the shareholder base has grown by 33% from 15,900 to over 21,000 investors.

This low MER reflects an efficient internal management structure whereby the employees are working for Milton's shareholders and there is no performance fee paid to an external manager.

A number of capital management initiatives were undertaken in the 2014 financial year with the objective being to make Milton a more attractive investment vehicle for a greater number of people.

In September 2013 the Share Purchase Plan was reintroduced and 5,500 shareholders subscribed for $63 million of shares at $19.12 per share.

At last year's AGM shareholders approved the split of the company's shares and all shareholders received 5 shares for each share held at 18 October 2013.

When you take into account the share split, the Share Purchase Plan shares were effectively issued at $3.82 per share.

In February 2014 Milton acquired an unlisted investment company with a portfolio of Australian listed equities valued at approximately $14 million. As with previous similar acquisitions this enabled Milton to issue shares at a slight premium to net asset backing.

In response to shareholder feedback a dividend reinvestment plan was offered with the interim dividend in March 2014. The current intention is to continue to offer the DRP with each dividend.

The Share Purchase Plan was offered again in September 2014. Approximately 3,400 shareholders participated and Milton raised an additional $35.7 million at $4.45 per share.

It is difficult to measure the success of these initiatives but we do note that over the year Milton's shares traded at a value more aligned to the per share value of its net asset backing before provision for tax on unrealised capital gains and in fact at year end the share price was slightly higher than this net asset backing per share.

Certainly annual turnover of Milton shares increased with $174.4 million of turnover in 2014 compared to $98.3 million in the 2012 year.

The company's analysts have been very busy over the reporting season as they reviewed the results announcements of over 80 companies and met with the management of most of these.

The majority of companies in Milton's portfolio that reported their results in the quarter to 30 September 2014 lifted their dividends per share and this has resulted in an increase in Milton's investment income for the period when compared to the previous corresponding quarter.

While some of Milton's larger investments that are yet to report may have a material impact on the half year results your directors expect to at least maintain the interim, fully franked ordinary dividend of 8.2 cents per share on the expanded share base following the DRP and Share Purchase Plan .

Milton's executive team will continue to search for opportunities to utilise the $100 million of cash available to make sound long term investments

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

Today I will discuss the financial highlights for the 2014 financial year and then look more closely at the performance of the investments.

The growth in underlying earnings per share supported the payment of higher ordinary fully franked dividends per share to Milton's shareholders. There were also sufficient special dividends received during the year to enable the payment of a special fully franked dividend of 0.4 cents per share.

The improvement in underlying earnings per share is largely due to sound growth in ordinary investment revenue, an increase in joint venture profits and tight expense management.

Ordinary investment revenue increased by 8%, with franked dividends improving by 9%.

The joint ventures in Perth continued to perform very strongly with Milton's share of pre tax profits jumping by 28% to $6.4 million.

Administration expenses rose by $130,000 or 4.1%. Much of the increase was due to higher shareholder related costs such as share registry, communications and ASX listing fees.

On going cost control combined with increasing asset values lowered the management expense ratio for the year to just 12.5 basis points.

Occasionally some people express concern that we may be cutting corners to achieve this management expense ratio. I can assure you that this is not the case. We have a sound system of risk management which is reviewed by the auditors and the audit committee.

We also have a disciplined and rigorous investment process whereby the investments are continually monitored. Milton's three analysts and I make investment recommendations which are subject to the review and approval of the Investment Committee. The Investment Committee structure leverages the investment experience and skills of our non executive directors. In 2014 the Investment Committee met on 21 occasions.

Milton has a strong balance sheet with total assets at 30 June 2014 valued at $2.7 billion which included cash of $116 million. The company has no debt and no intangible assets.

Through a combination of asset revaluations and share issues the total assets increased in value over the year from $2.4 billion at 30 June 2013 to $2.7 billion at 30 June 2014. The revaluation of the investments in the portfolio increased total assets by a net $279 million and the share issues added $78 million.

Milton started the year with a cash balance of $114.8 million.

This balance was increased by $120.6 million through normal operating activities, $64.1 million by the issue of shares under the Share Purchase Plan and $19.5 million from the sale of investments.

The cash was used to pay $107 million of fully franked dividends to shareholders and $95.4 million was invested.

This left the cash balance at the end of the year of $116.2 million.

Over the 2014 financial year the net asset backing, before provision for tax on unrealised capital gains, per share grew by 11.9% to be $4.35 and the Milton share price lifted by 23.4% to close at $4.54 at the end of the financial year.

Milton's net asset backing does tend to move in line with the All Ordinaries Index over the long term as this chart shows. The increase in market values of Milton's investments resulted in a revaluation adjustment of $279 million for the year ended 30 June 2014.

This chart does not take into account the dividends paid by Milton or the companies that make up the All Ordinaries Index.

The investment portfolio has delivered sound returns in terms of income and capital growth to its shareholders over many years.

The Total Portfolio Return, or TPR, is an imperfect measure of the combined return but it does provide a guide to relative performance. The TPR is reduced by the overheads and tax paid whereas the benchmark, the accumulation return of the All Ordinaries Index, is unaffected by these items.

Milton's one year TPR to 30 June 2014 of 16.5%, was marginally below the benchmark return of 17.6%. However Milton's TPR over longer periods shows consistent outperformance. The compound annual return of the TPR over fifteen years to 30 June 2014 was 10.3% per annum compared to the accumulation return of the All Ordinaries Index for the same period of 8.5% per annum.

Milton's relative performance would be enhanced if the volume of franking credits were included in the calculation.

Milton is a long term investor and there will be periods in which the portfolio underperforms the index. The key though is that Milton's ability to pay its ordinary dividend is unaffected by unrealised movements in share prices.

The graph shows Milton's portfolio additions and disposals by sector.

The additions, which were spread across many companies and sectors, include the $14 million of investments from the acquisition of the unlisted investment company in February 2014, $63 million of purchases in the first half of the year and $31 million of purchases in the second half.

The unlisted investment company had investments in 50 companies most of which were also held by Milton. Like most of the previously acquired unlisted companies its investment philosophy was to invest for the long term in companies that pay dividends and are likely to provide capital growth over time. Typically the larger investments of these companies include the banks, other LICs and the major diversified resource companies.

Some of the $94 million of purchases completed during the year were opportunistic through participation in rights issues and institutional placements.

In the banking sector Milton subscribed for all of its $8.1 million entitlement to Bank of Queensland shares under its rights issue in April 2014.

Other capital issues in which Milton participated during the year included:
The IAG institutional placement at $5.47 per share,
The Equity Trustees rights issue and placement at $17 per share in which Milton accepted its full entitlement and bid for additional shares.
The Transurban rights issue at $6.75 per share in which Milton accepted part of its entitlement and
The ALS rights issue at $7.80 per share. Only part of the entitlement was taken up and Milton received consideration for the rights not accepted.

Most of the purchases though were completed on market.

The on market purchases greater than $3 million were BHP Billiton & Rio Tinto, Suncorp Metway, Carsales.com, Tatts Group, Worley Parsons, Auto Holdings Group, APA Group and Woolworths.

Milton added Carsales.com and WDS Limited to the portfolio in the year.

Carsales.com has been listed for five years and it has established itself as Australia's number one on-line automotive classified website. Carsales.com enables customers to buy new and used cars, sell cars, value cars, research cars, and obtain news and reviews.

It has consistently grown its earnings per share and dividends per share over the last five years. Earnings per share have more than doubled from 19 cents in 2010 to 40 cents in 2014 and dividends per share have grown from 15 cents per share to 32 cents per share in that same period.

Carsales.com has continued to invest in the business both domestically and internationally.

Whilst the core automotive business is maturing and the growth rate has slowed, the company has invested in non automotive sites such as marine, and caravan & camping and these are expected to deliver growth over time.

Further growth is expected to be delivered from the offshore acquisitions and new adjacent opportunities, such as Stratton Finance and Tyresales.com.au where Carsales.com can add significant value.

WDS provides manufacturing construction as well as maintenance related services to the Mining and Energy sectors in Australia. WDS delivers services through two divisions Energy and Mining.

The Energy division offers a range of services to the Oil & Gas sector. The major focus of the division is now on the coal seam gas sector (CSG) where it has been successful in delivering services such as oil and gas field development, CSG gathering systems installation and maintenance and gas compression & processing.

The Mining division offers a full suite of underground mine services for coal and hard rock mines, as well as the civil construction industry.

WDS should be a beneficiary of the significant coal seam gas activity in Queensland which is necessary to feed the LNG plants in Gladstone. It has a strong experienced management team, it has no borrowings and it pays dividends quarterly.

In 2014 the company increased its ordinary dividends per share by 10% and it declared a special dividend which was paid in September 2014.

The company announced on Monday this week that it had a workplace fatality in September 2014. This will affect its results for the 2015 financial year.

Our analyst has met with management and we are currently considering the long term implications.

Milton's portfolio was affected by corporate transactions such as demergers and takeovers.

Both Amcor and Brambles restructured their operations and demerged parts of their business.

Amcor combined its Australian packaging operations and its North American packaging distribution business into a company now known as Orora and demerged from Amcor. Milton retained its investment in Orora.

Brambles demerged its document storage and digital document management businesses and listed them under the name of Recall Holdings Limited. Milton sold its investment in Recall and reinvested those proceeds into the Brambles business.

The merger of Trust Company with Perpetual Limited via a scheme of arrangement was approved by shareholders in November 2013. Milton elected to receive $24 million of Perpetual Limited scrip as consideration and it has retained that holding.

In June 2014 investors in Westfield Group and Westfield Retail Trust approved the restructure which resulted in the formation of Scentre Group which owns and manages the Australia and New Zealand retail centres and Westfield Corporation which owns and manages the international retail centres. Milton has retained its investments in both new vehicles.

Milton disposed of its entire holdings in APN News and Media, Fairfax Media and Alumina, and it reduced its investment in Metcash and QBE. Our holdings in the Commonwealth Property Office Fund were taken over by Dexus Property Group and we elected to receive cash as consideration.

Consistent application of Milton's investment philosophy over many years has created an investment portfolio that has a number of "active" positions. That is Milton has and does not attempt to replicate any index rather it invests for the long term in those companies that are expected to provide sound dividend growth over time.

Compared to the S&P/ASX 200 index, Milton has a smaller exposure to the Materials sector, which includes resource companies such as BHP Billiton and Rio Tinto, and so it is considered to have an active underweight position in Resources.

This underweight position largely reflects historical concerns regarding the receipt of reliable dividends from companies in the sector. As BHP Billiton and Rio Tinto have adopted a progressive dividend policy Milton has increased its investments in these companies.

Milton is considered "overweight" the Banks sector because the banks represent 36.7% of Milton's total assets but they represent 29% of the index.

The Banks have performed strongly over many years and have sound track records of paying fully franked dividends.

Milton has relatively larger investments in Westpac and the regional banks than the index, it is roughly market weight in CBA and NAB and it is relatively less exposed to ANZ than the index.

While Milton does not currently intend to direct 39% of additional investments into the banking sector, it will take advantage of opportunities such as that provided by the BOQ rights issue in which Milton was able to invest $8.1 million to acquire shares at $10.75 per share.

Approximately 20% of our holdings represent 70% of the total asset value. The other 80% of our holdings play an important role in diversifying our exposure and providing opportunities for future growth.

The table on the screen shows the contribution to investment income by sector.

The dividend income produced by Milton's banking portfolio increased by 7% over the year to total $51.9 million. This result did not include any dividend income from the $8.1 million of BOQ shares acquired under the rights issue in April 2014.

Approximately 65% of the investments lifted their dividend during the year, 15% held their dividend steady and 20% paid lower dividends.

Some of the larger holdings, which delivered significant increases, included Perpetual, IAG Insurance, Woodside Petroleum, Suncorp Metway, TPG Telecom, Rio Tinto and Macquarie Group.

The curtailment of spending by resource companies, both domestically and internationally, negatively affected the earnings of companies that provide mining services such as: ALS, Bradken, Fleetwood, Sedgman, and Worley Parsons. Dividend income from these companies was lower in 2014 than that of the prior year.

As a long term investor we do not necessarily sell an interest in a company because the dividend is reduced. Instead we consider the reasons for the reduction, look at the response by the board and management and then form a view on the company’s medium to longer term outlook and its ability to grow earnings and pay increasing dividends.

The results from the recently completed reporting season were generally good. There are fewer surprises these days as companies keep the markets informed under the continuous disclosure regime.

The earnings from many companies benefited more from operational improvements than revenue growth or return on capital investment and in the current economic environment they appear to be prepared to pay higher dividends rather than hold on to the cash.

Of course we are always happy to take higher dividends but it may mean the rate of growth of dividends may be lower in the medium term.

Never the less the outlook for Milton’s first half results is positive with earnings to date higher than at the same stage in the prior year.

I expect both political and economic uncertainty will persist in 2015 and this will weigh on the consumer and the investment decisions of many corporates.

Under these conditions it is important to maintain a long term focus and continue to invest in companies with sound business models and reliable earnings and dividends.

With experienced directors and staff who are focussed on shareholder returns and a strong balance sheet I believe Milton is in a sound position to continue to deliver on its value proposition of efficiently delivering reliable dividends from a diversified investment base.