MILTON CORPORATION LIMITED
2013 ANNUAL GENERAL MEETING
TO BE HELD THURSDAY, 10 OCTOBER 2013 AT 3 PM
AT THE WARATAH ROOM,
AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS,
LEVEL 1, 10 BOND STREET, SYDNEY

WELCOME

Good afternoon ladies and gentlemen.

My name is Robert Millner and it is my pleasure to welcome you to the 75th 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.

On this side 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 45 million shares or approximately 36 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 2013 financial results of Milton and comment on the investment portfolio.

CHAIRMAN'S ADDRESS

Milton's objective is to hold a diversified portfolio of assets that generates a growing income stream for distribution to shareholders in the form of fully franked dividends and provides capital growth in the value of the shareholders' investments.

At 30 June 2013 Milton had total assets valued at $2.4 billion with $2.2 billion of these assets being investments in a portfolio of diversified Australian listed equities.

This portfolio comprises approximately 100 companies which operate in various sectors across a range of geographies.

The portfolio as a whole performed quite strongly during the year in terms of both dividend income and increase in value over the year. The Total Portfolio Return for the year was 23.6%. Frank will discuss the portfolio and its performance in further detail shortly.

Ordinary income from operating activities for the year totalled $117.2 million and the underlying operating profit after tax of $108.5 million was 5.7% higher than it was a year earlier.

The receipt of special investment revenue from a number of companies boosted net profit after tax to $111.2 million, which was 7.5% higher than the net profit for the 2012 year.

Milton's fully franked ordinary dividends were raised in line with the higher underlying operating earnings. The interim dividend increased by 1 cent to 39 cents per share and the final dividend was increased by 3 cents to 43 cents per share. The 2013 full year ordinary dividend of 82 cents per share was 5.1% higher than the prior year.

We are mindful that the reliability of Milton's ordinary dividend is important so directors consider the current year underlying operating profit as well as the outlook for the following year, prior to declaring the ordinary dividend. By paying out between 90% and 95% of underlying operating profit the company retains some cash for reinvestment to assist with the growth in overall earnings.

We are also aware that franking credits are highly valued by many of Milton's shareholders and special fully franked dividends have been declared and paid out of the special dividend income received by Milton when this income has accumulated to a material amount.

A fully franked special dividend of 2.5 cents per share was paid by Milton to its shareholders with the final dividend on 4 September 2013. Over the last ten years Milton has paid five fully franked special dividends totalling 35.5 cents per share.

In each of 2000 and 2001 Milton paid a fully franked special dividend of 20 cents per share prior to a reduction in the company tax rate, which occurred in the following years.

Over $100 million of fully franked dividends were paid out of Milton's earnings for the 2013 financial year.

Milton's net asset backing before provision for tax on unrealised capital gains, which is referred to as its NTA, stood at $19.45 per share at 30 June 2013.

The NTA is generally considered to be a reasonable indicator of the value of a LIC's shares.

The graph on the screen shows that the Milton share price tends to track the NTA. When the share price is higher than the NTA it is considered to be trading at a premium and when the share price is less than the NTA it is said to be at a discount. The share price at 30 June was $18.40 per share and so the shares were trading at a discount of 5.4% to the NTA.

This next graph shows that in the years leading up to the GFC Milton's shares traded at a premium as often as they traded at a discount. Following the GFC the shares traded at a discount as some shareholders sought to rebalance their investments from equities to the perceived safety of cash and fixed term deposits. In that time the number of Milton shareholders reduced by 1% to 19,000.

Many of Milton's long term investors were largely unaffected by the increase in discount except that some may have used it as an opportunity to increase their holdings.

In this period most managers of equity funds reported cash outflows. However the impact on continuing investors in closed ended corporate structures such as Milton is likely to have been quite different to those in open ended trust structures.

An open ended managed fund which redeems its unit holders' investments out of the assets of the fund may have been required to sell assets to meet redemptions, in which case all continuing investors would have been affected.

Demand for Milton shares has increased over the last twelve months as the impact of lower interest rates has encouraged investors to re enter the equities market. This has resulted in the discount narrowing and the number of Milton shareholders increasing to almost 20,000.

As the financial services industry adjusts to a post FOFA environment we believe there are likely to be opportunities to better promote the benefits of investing in LICs in general and Milton in particular.

With this in mind we have met with a number of participants in the financial services sector to gauge the current level of knowledge of LICs and the amount of interest in recommending LICs to their clients. I would like to acknowledge the efforts of these people who gave their time freely and provided us with very constructive feedback.

This exercise has shown that there is an increasing level of awareness of LICs but we must continue to engage with financial planners and advisers and clearly articulate Milton's value proposition to help them understand the advantages of an investment in Milton.

A well communicated value proposition may increase demand for Milton shares and this may lead to a narrower discount at which Milton shares trade.

Feedback from advisers and shareholders to date has also led us to consider the benefits of a share split and later in the meeting shareholders will be asked to approve the splitting of each share into five. It is anticipated that the share split will improve liquidity in the trading of Milton shares and will make Milton shares more attractive to a greater number of investors.

We were pleased to reintroduce the Share Purchase Plan in September 2013. This SPP enabled shareholders in invest up to $15,000 in new Milton shares at a price of $19.12 which represented a discount of 2.5% to the ex dividend share price.

The SPP was well supported with 5,500 shareholders subscribing for 3.3 million shares providing $64 million of additional funds for investment at appropriate times.

In February 2013 Milton acquired an unlisted investment company with investments totalling $11 million. As with previous acquisitions of this nature Milton issued its shares to the vendors of the unlisted company on terms that ensured the shares were issued at a premium to Milton's net tangible assets per share.

Milton continued to monitor its equity portfolio carefully throughout the year. The investment committee, which comprises John Church, Kevin Eley, Frank Gooch and myself met 19 times during the year to consider the recommendations of Milton's analysts. The committee approved the investment of $34 million in listed companies and disposals totalling $18 million.

Through the consistent application of its investment philosophy of investing in well managed companies with a profitable history and with an expectation of dividend growth, Milton has constructed a portfolio of companies that is not aligned with any index. Many of the companies in the portfolio have been keenly sought by yield focussed investors over the last twelve months.

This has boosted the share price performance of Milton's portfolio relative to that of the All Ordinaries Index. The revaluation of the companies in the portfolio lifted the value of the investments by $351 million.

Combining the revaluation with the investment income produces a Total Portfolio Return for the year of 23.6%. This return, which is net of tax paid and expenses paid by Milton, exceeded the accumulation return of the All Ordinaries index of 20.7% for the same period. Milton's TPR would increase to 24.0% if the tax and operational expenses were added back.

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

The majority of companies reported their results in the quarter to 30 September 2013 and I am pleased that this has led to an increase in Milton's investment income for the period.

Milton's underlying operating profit for the quarter is ahead of the profit for the previous corresponding quarter and we are optimistic that some of the larger investments, which are yet to report, will also lift their dividends.

This provides us with a degree of comfort that Milton will at least maintain its interim, fully franked ordinary dividend of 39 cents per share on the expanded share base following the SPP.

The tone of the company reporting to date has generally been as expected with many companies providing cautious outlooks for the 2014 financial year.

We expect Milton's investments in Australian companies with offshore operations will benefit from a slowly improving global economy.

However trading conditions for domestically focused companies may be a little more challenging over the short term. Overall earnings in 2014 should be supported by the significant efficiency drives undertaken by most companies and dividends should at least be maintained.

A stable political environment combined with continuing low interest rates and a weaker Australian dollar provides some optimism that domestic earnings and dividends will improve over the medium term.

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

In 2013 Milton lifted its revenues, maintained a flat cost base and delivered an improved underlying profit.

Being reasonably fully invested with 92% of the assets being investments in listed equities the majority of Milton's ordinary income comprises dividends and trust distributions. In 2013 ordinary investment income was close to $106 million and special dividends amounted to almost $3 million.

Interest income of $5.6 million was 21.5% below the previous year with the fall largely due to lower Australian interest rates, something with which I am sure we are all familiar.

The property development joint ventures once again performed well with Milton's share of profits increasing by 35.6% to $5 million. This is an outstanding result given Milton's investment in the joint ventures at 30 June 2013 was $20 million.

The joint venture assets are recorded at cost which is likely to be substantially below market value. Milton originally invested in Ellenbrook 13 years ago and the value of the investment has grown as some of the profits earned have been reinvested in the project. The project is now at a stage where we expect the cashflow from the joint venture will exceed the profits recognised each year.

One of the key considerations of any investment in a joint venture is the strength of the manager. The manager at Ellenbrook is LWP and Milton has co-invested with this manager and others in a land development project in the Hunter Valley. Approvals are in place for the development to proceed and we anticipate sales will commence later this year. This is a long term project which we expect will make sound returns for Milton over the long term.

By Milton maintaining a flat cost base all of the additional earnings were reflected in the underlying operating profit for the year. Total operating costs for the year were 0.14% of average total assets.

Milton employs three analysts and myself to manage the portfolio and it has an investment committee which meets regularly with the executives to discuss and consider portfolio recommendations. Through this process Milton is able to leverage off the significant investment and operating experience of its directors.

The Milton portfolio generated increased dividend income and had a strong uplift in value in the 2013 financial year.

This following chart shows the performance of each sector in the portfolio. The size of the circle indicates the size of the investment. Sectors in the top right hand quadrant contributed high yield and strong increase in value and sectors in the bottom left hand quadrant had lower yields and devaluations.

Clearly you would like to have everything in the top right hand corner but with a diversified portfolio this is rarely going to occur.

The sectors with strong total return performances, that is dividend and value increases, included Banks, Diversified Financials, Healthcare, Insurance and Telecommunications.

The banking sector is Milton's largest sector with the total investment at 30 June 2013 of $845 million. The banks' reliable and growing fully franked dividends attracted many investors and their price appreciated accordingly. The valuation of Milton's total investment in the banks increased by 32% and they contributed $48 million in ordinary dividends. The total return for the year from these investments was 39% with 7% of this being dividend income.

Investments in Telstra and TPG Telecom produced a total return of 42.7%. Telstra provided a total return of 34.5% which included a dividend yield of 7% and TPG had a total return of 105% of which 3.6% was from dividends.

The Diversified Financials sector was one of the stronger performers for the year with particularly sound total returns from Equity Trustees, Macquarie Group, Perpetual and Trust company.

The best total return was derived from the health care sector which produced a return of 47% most of which was in price appreciation. Within the sector CSL and Ramsay Healthcare were the standouts.

At 30 June 2013 Milton had $217 million invested in the Materials sector, which contains building materials companies, such as Brickworks, Boral and Fletcher Building and it contains resource companies such as BHP Billiton and Rio Tinto.

With the slowdown in the global economy affecting demand for coal and iron ore the markets repriced resource companies to take into account lower future earnings expectations and this led to a reduction in the value of Milton's holdings in these companies.

Companies exposed to the building supplies sector were rerated in anticipation of a pick up in building activity. The increase in the values of our holdings in the building suppliers more than offset the reduction in the values of the resource companies so that the sector reported a net valuation increase of 5.8% and a total return of 9.4%.

The resource companies embarked on a substantial cost reduction exercise which then impacted those companies, such as Bradken, Cardno, Sedgman and UGL that provide goods and services to the resource companies. These companies are part of the Capital Goods sector which as a whole fell in value by 22%.

You can see from the chart that Commercial Services produced a negative total return of 4.3%. Milton's largest investment in this sector is ALS which is a provider of testing services to the resource sector and its market price was affected by the same issues that impacted the resource companies and those in the capital goods sector. Even though Milton received increased dividends from ALS the fall in its share price resulted in a negative total return for the year. Over the 10 years to 31 March 13, an investment in ALS shares has achieved an average compound annual rate of return of 33.8 per cent.

Consideration of total returns is useful to show how the various sectors contributed to Milton's overall performance. However it is not necessarily a good guide to the best companies.

The total return does not tell you how well the company performed for most of the year as the return is based on the movement in share price at two points in time only.

The market tends to price companies based on future earnings expectations rather than historical earnings and so the value movements of some companies may not reflect their operational performance for the year.

Additionally the total return does not indicate whether dividends were increased or not.

Investment income, which is largely dividends received, increased by 6% for the year. As in most years the improved result is a combination of some strong increases offset to some extent by some lower dividends.

From a portfolio perspective 57 companies increased their dividends, 17 held their dividend the same while 30 paid lower dividends.

Some of the larger per centage increases in dividends were derived from our holdings in A P Eagers, Insurance Australia Group, Metcash, Suncorp Group and Wesfarmers.

The companies that disappointed, with sharply lower dividends than the previous year, included Perpetual, QBE, Seven West Media and Sims Group.

During the year Milton increased its investments in over 40 companies through the acquisition of an unlisted company in February and through direct purchases.

The larger investments included ASX, AP Eagers, Automotive Holdings Group, IOOF Holdings, Tatts Group, Telstra and Westfield Group.

McMillan Shakespeare was added to the portfolio. This is a well managed company, with a history of making profits and paying increasing dividends.

In 2013 this company grew its earnings per share by 10.5% and delivered a return on equity of 34%. The following graph extracted from a McMillan Shakespeare ASX release shows its long history of both increasing profits and dividends.

The performance of the company's shares was negatively affected when the Labour government announced proposed changes to the FBT on motor vehicles. The company's share price has recovered somewhat from its lows but more importantly for Milton the company deferred its declaration of a final dividend because of the uncertainty arising from that announcement.

The newly elected coalition government has confirmed that it will not proceed with the proposed changes to the FBT. However at this stage the company has been unable to provide any indication of the impact on its 2014 earnings.

Obviously we will continue to monitor developments with this investment.

Milton's value proposition

I would like to finish today with a recap of the benefits of an investment in Milton.

As many of you present today are already part of the Milton family this may be a bit like preaching to the converted so I apologise in advance.

Milton provides its shareholders with a reliable fully franked ordinary dividend income stream with dividends generally paid in March and September each year.

Investors looking to accumulate wealth can reinvest the dividends in Milton through the Share Purchase Plan, which was reinstated this year and is expected to be offered regularly.

Alternatively investors such as retirees can use the cash for day to day expenses.

The regular and reliable dividend enhances our shareholders' ability to manage their cashflows.

The fact that the dividends are fully franked and paid in March and September also enhances their ability to forecast their expected tax liabilities and manage their financial affairs accordingly.

Milton aims to regularly increase the ordinary dividend and in fact the dividend has doubled in the period from 1999 to 2013. In addition five special dividends totalling 35.5 cents per share have been paid in the last ten years.

A shareholder in Milton has an interest in an actively managed, diversified portfolio of 100 companies listed on the ASX. The portfolio represents about 92% of total assets and has been created to generate investment income for distribution to Milton shareholders and not to necessarily align with any index.

The composition of the portfolio is regularly reported to the ASX so shareholders have a good knowledge of Milton's asset allocation and can seek to diversify further by investing directly into other assets if they so desire.

Those of you who have provided our share registrar with your email address may have noticed that the NTA announcement is now normally released within two to three business days of the end of the month.

The NTA at 30 September 2013 was released on 2nd October and reported Milton's NTA was $20.86 per share. The 7.2% increase since the beginning of the financial year is on top of the 45.5 cents per share dividends paid on 4 September.

By investing in Milton a shareholder is gaining access to the investment experience of Milton's directors and analysts. Milton's investment process requires the analysts to monitor their allocated companies carefully and present recommendations to the investment committee for approval. In 2013 the investment committee met 19 times.

Milton is managed internally which means that all of the people managing your investment are working with the one objective of maximizing returns to shareholders of Milton.

By the way all of Milton's directors and staff are shareholders of Milton.

With no external management or performance fees and with a focus on operational efficiency Milton is one of the lowest cost, professionally and actively managed equity products available in the market. In 2013 Milton's operating expenses were equal to 0.14% of average total assets.

In closing I would like to thank the directors for their support and guidance during the year and I would like to acknowledge the efforts of my small but dedicated team for their efforts throughout the year.