MILTON CORPORATION LIMITED
ABN 18 000 041 421

The following addresses were presented to the 71st Annual General Meeting on 8 October 2009.

CHAIRMAN'S ADDRESS

The 2009 financial year was possibly the most difficult for Milton in its 71 years of operation. In a relatively short period of time, the US credit crisis turned into the Global Financial Crisis, and credit markets were virtually closed.

As banks stopped lending and fewer transactions were completed, asset values became more uncertain and there was a flight to the relative safety of cash.

Balance sheet strength was critical, as companies found renegotiating debt facilities difficult and expensive.

Many companies resorted to cutting dividends and issuing large amounts of equity at deep discounts to lower their gearing. This did affect Milton's investment revenue, particularly in the second half of the financial year.

Milton's Underlying Operating Profit for the financial year ended 30 June 2009 was $73.6 million. This was 11% lower than the previous year.

The Underlying Operating Profit is important, as it represents the surplus of the company's ordinary investment income over its operating expenses and income tax. It excludes special investment revenue, realised gains and losses and impairment losses. Consequently, it provides a guide to the sustainable profit and it is the key factor used by your directors to determine the ordinary dividend payout.

The Underlying Operating Profit in 2009 was affected by reduced dividend and distribution income from the long-term investment portfolio, as well as by lower interest rates applicable to the cash and other liquid assets held during the year. Operating expenses were marginally lower than the previous year.

The weighted average earnings per share, based on operating profit, were 85 cents compared with 98.5 cents in the previous year.

Profit for the year ended 30 June 2009 was $50 million, after accounting for special dividends of $0.8 million, net realised losses of $1.8 million, and impairment losses of $22.6 million.

The fully franked final dividend was reduced to 35 cents per share to bring the full year ordinary dividend to 78 cents per share, 11.4% lower than the record full year ordinary dividend of 88 cents per share last year.

Prior to this, the company had not paid a full year ordinary dividend that was lower than the ordinary dividend of the year before. However, with the lower operating profit in 2009, and with the expectation that dividend income in the first half of 2010 would be lower than the previous corresponding period, your directors considered it was in the best interests of the company to reduce the final dividend for 2009.

The Australian equity market suffered as the profit outlook became increasingly uncertain, with expectations of higher unemployment, lower consumption and lower production.

The All Ordinaries Index peaked at 6873 during November 2007, and bottomed 55% lower at 3091 during March 2009. It has since recovered to 4696 at the close of business on 7 October 09.

Milton's net asset backing before providing for tax on unrealised capital gains was $15.11 per share at 30 June 2009, compared with $19.03 a year earlier. Whilst we are disappointed with this 20.6% fall, it was better than the 26% fall in the All Ordinaries Index over the same period.

The net asset backing has continued to improve since the end of June 09 and was $18.15 per share at the end of September 09.

Milton's balance sheet is very strong. At 30 June 2009, Milton had assets valued at $1.3 billion, which included cash of $66.5 million and it had no debt. Since then, Milton has paid a final dividend of $31 million and it has completed its Share Purchase Plan, which raised an additional $63 million.

Last year, the SPP raised nearly $16 million and Milton's capital was increased by a further $47 million through the acquisition of an unlisted investment company. This acquisition provided Milton with an excellent long-term portfolio valued at $38 million and $9 million in cash.

At the conclusion of this annual general meeting, Mr David Myles will retire as a director of the company. Mr Myles became a director of Milton in 1998 when Milton merged with its associate, Matine Limited. Prior to this he had been a director of Matine for six years.

It has been a pleasure to work with Mr Myles, who was appointed chairman of the Audit Committee in October 1998, and I would like to thank him for his contribution.

In June 2009, Mr Graeme Crampton was appointed a director and he will stand for election later in the meeting. He was a partner of a major accounting firm for more than 28 years and has extensive experience in the investment industry. Subject to his election today, it is anticipated that he will be appointed chairman of the audit committee.

In the 2010 financial year, 94 companies and trusts in Milton's portfolio have reported their results. In general, dividends declared have been lower than the previous corresponding period, with 50 companies reducing their dividend and only 27 increasing their dividend.

Consequently, Milton's unaudited results for the three months to 30 September 2009 indicate that earnings per share have decreased over the previous corresponding period.

Three of the big 4 banks will announce their full year results in November 2009, and their dividends will have a significant effect on Milton's underlying operating profit. The consensus view is that the final dividend from each of these banks may be less than their previous final dividend.

Accordingly, we are of the view that Milton's underlying operating profit for the six months to 31 December 2009 is likely to be less than the corresponding six months last year.

However, in the absence of unforseen circumstances, Milton's interim dividend is expected to be in line with the 2009 final dividend of 35 cents per share.

The share price of many companies has started to improve in anticipation of a revival in earnings, which may not be fully reflected in the companies' results for the year ended 30 June 2010.

Milton will continue to invest in companies as the economy improves and their earnings and dividend outlook becomes more certain.

R.D. MILLNER
Chairman

MANAGING DIRECTOR'S ADDRESS

Milton's objective is to hold a diversified portfolio of assets that generates a growing income stream for distribution to shareholders.

At 30 June 2009, Milton had total assets valued at $1.3 billion and the ordinary income stream that was derived from these assets during the year amounted to $80 million.

After allowing for operating expenses of $3 million and tax of $3.4 million, the amount available for distribution to shareholders, which we commonly refer to as the Underlying Operating Profit, was $73.6 million.

The Underlying Operating Profit for the half year to 31 December 2008 was $41.5 million, which was slightly higher than the previous corresponding period, and Milton maintained its interim dividend of 43 cents per share.

The Underlying Operating Profit for the second half of the year to 30 June 2009 was $32.1 million. This was almost 23% lower than the previous corresponding period.

There were a number of factors that contributed to the fall in the operating profit.

Investment revenue for the six months to 30 June 2009 was 22% lower than the investment revenue for the previous corresponding period, and it was 25% lower than the investment revenue in the first half of 2009.

The reduction in the rate of growth in dividend income commenced prior to the global financial crisis. In the six months to June 2008, 91 of Milton's companies and trusts paid increased dividends and distributions and only 11 reduced their dividends and distributions. In the following six months, fewer companies increased their dividends but there were still more companies increasing their dividends than decreasing.

In the six months to 30 June 2009 this changed substantially, with the number of companies that reduced their dividends far exceeding the number that increased their dividends. Sixty seven of Milton's investments reduced their dividends and distributions and only 29 increased their dividends and distribution.

In previous years, a cut in dividends would have been followed by substantial share price falls. However, this time it really was different and dividend cuts tended to be followed by an uplift in the share price. Investors preferred to see companies proactively manage their balance sheets by adjusting capital structures and debt profiles, rather than paying dividends, because the alternatives were even less palatable.

In the six months to 31 December 2008, 15 of Milton's Top 20 companies increased their dividends and three decreased their dividend. In the six months to 30 June 2009, only five of the Top 20 companies increased their dividend and seven decreased their dividend.

The standout in the second half was BHP, with an increase of 103.4%. The BHP dividend is declared in USD, and the increase excluding the currency effect was 41%. The balance of the increase was due to the depreciation of the AUD against the USD to 63 cps.

The largest fall in dividend was from Perpetual, which cut its interim dividend by almost 80%, from $1.89 to 40 cents per share.

The banks with a September year end, such as Westpac, NAB, ANZ and Bank of Queensland, cut their interim dividends by between 20% and 26%. The ANZ led the way when it announced on 26 February that it expected its 2009 dividend would be reduced by around 25%, and this was followed by a NAB market update on 12 March which indicated the interim dividend would be cut by approximately 25%.

Investment revenue was also affected by a drop in distribution income from trusts and stapled securities. These trusts tended to be more highly geared and many were forced to significantly cut their distributions. Even though they represented less than 5% of the portfolio at the beginning of the year, they were responsible for approximately one third of the fall in investment revenue on a pre tax basis.

As the economic outlook worsened, the RBA lowered official cash rates from 7.25% at 30 June 2008 to 3% on 8 April 2009. It remained at 3% until last Tuesday, when it was increased to 3.25%. Most of the impact of the lower interest rates was felt by Milton in the second half of its financial year.

The share of profits for the 2009 financial year, from the Perth based property development joint ventures was $2.2 million, compared with $5.7 million in the prior year. The real estate development market in Perth slowed as expected, but it did benefit from the first home owners grant late in the financial year, and so profits in the second half were higher than the first.

On a positive note, Milton's trading profits of $1 million were significantly higher than prior years, as Milton took advantage of a number of short term trading opportunities that arose from the large number of discounted capital issues, particularly in the second half.

Net profit after tax for the year ended 30 June 2009 was $50 million and included impairment losses, net of tax of $22.6 million, realised capital losses, net of tax of $1.8 million and special dividend income of $882,000.

All investments trading below cost, at the end of the reporting periods, were assessed for impairment and, where there was objective evidence of impairment, losses were recognised in the income statement. In accordance with the accounting standard the loss was determined by reference to the market value on the final day of the reporting period.

This is an absurd outcome, as the company is effectively forced to write down the value of a long term investment to a spot price which may not have any relationship to its long term value. To make things worse the accounting standards do not allow any subsequent increases in value to be reflected in the income statement.

The market value of the impaired assets has increased by 40% since 30 June 2009.

I should also point out that Milton revalues its investments continuously, and so the recognition of an impairment loss has no effect on the net asset backing of the company. It is a transfer from the asset revaluation reserve to the income statement.

The investments are primarily comprised of listed companies, unit trusts and stapled securities and, at 30 June 2009, represented 91% of the total assets.

The portfolio is diversified in terms of the companies and the sectors in which Milton is invested.

At year end, there were 139 companies and trusts in the portfolio. The Top 20 investments, which were valued at $876 million, represented approximately 71% of the total value of investments. At 30 September, these assets were valued at $1.1 billion and total assets were $1.6 billion.

The largest holding, Westpac, was valued at $173 million, or approximately 13% of total assets at 30 June.

When Westpac completed its scrip for scrip merger with St George Bank in December 2008, this holding increased by $45 million.

There is no current intention to reduce this holding, as it is one of Australia's leading banks with a strong board and management.

The portfolio has investments in most of the major sectors, however the weightings are not aligned to any index. It is Milton's investment philosophy of investing in well managed companies with a history of paying dividends that has shaped its investment profile, and not the size of the companies listed on the ASX.

During the year, the portfolio increased through the acquisition of an unlisted investment company and through direct purchases, and it decreased through the disposal of investments and the net devaluation of the portfolio.

The acquisition of the unlisted investment company provided a portfolio valued at $38 million, which comprised $7.7 million or 20% in bank shares, nearly $8 million in Consumer Staples, such as Fosters and Woolworths, $2.8 million in Energy stocks, such as Santos and Woodside, and $12.5 million in Materials which was mostly BHP.

The sectors with the largest direct purchases by Milton were Capital Goods, which included Cardno and Leightons, and Materials which were mostly the acceptance of the Rio Tinto rights issue, but also included One Steel, Adelaide Brighton and Incitec Pivot. The sale in Capital Goods was Alesco, in Materials it included Wattyl and Gunns, and in Retailing it was Just Group which was taken over by Premier Investments.

Over the year, Milton's net asset backing per share reduced from $19.03 to $15.11 and the Total Portfolio Return, which includes dividends paid, was negative 15.6% for the year. Over the ten years to 30 June 2009, the Total Portfolio Return was 9.4% per annum compounded.

Milton's Total Shareholder Return, which is based on share price movement and dividends paid, was negative 20.5% for the year, but a positive 9.8% per annum over ten years

The Total Shareholder Return and the Total Portfolio Return may vary significantly over shorter periods, as Milton shares can trade at prices above or below the company's net asset backing. However, the effect is less pronounced over longer periods of time.

From the end of June 2009 to the end of September 2009, the market as measured by the All Ordinaries Accumulation Index has increased by 21.5%. In that same period, Milton's shareholders have received a final dividend of 35 cps, and the net asset backing has increased from $15.11 to $18.15, providing a Total Portfolio Return of 22.4%.

There are signs that the Australian economy is recovering and that earlier economic forecasts may have been too pessimistic. GDP for the March and June quarters has been better than expected and business and consumer confidence have picked up significantly over the past few months.

Whilst Treasury continues to warn that business conditions remain challenging many economic forecasters are more bullish and forecasts of company profits have been revised upwards.

On Tuesday this week, the RBA lifted the official cash rate by 25 basis points. The Bank indicated that economic conditions are improving and that the recovery will likely continue during 2010.

So at the moment we have rising share prices in anticipation of increasing company profits which may not materialise in the short term and may not be reflected in increased dividend payments for some time.

Our task is to acquire shares at a fair price in those companies that are likely to pay increasing dividends over the long term.

F.G. GOOCH
Managing Director of Milton Corporation Limited

RESULTS OF ANNUAL GENERAL MEETING

The following resolutions were passed by a show of hands-

Resolution 1

To adopt the Remuneration Report.

Resolution 2

To re-elect Mr R.D. Millner as a director.

Resolution 3

To elect Mr G.L. Crampton as a director.

Resolution 4
To amend the Constitution to permit Direct Voting.

Resolution 5
To re-adopt Clause 20 of the Constitution relating to Proportional Takeover Approval Provisions.