



Milton
CORPORATION LIMITED

Annual Report 2020

Company Profile

Milton Corporation Limited

Milton was established as a private investment company for four shareholders in 1938. It became a public company in 1950 and listed on the Sydney Stock Exchange in 1958. Milton is now an investment company for 29,500 shareholders and is listed on the Australian Securities Exchange (ASX) under the code MLT.

Investment philosophy

Milton is predominantly a long term investor in companies and trusts listed on the ASX that are well managed, with a profitable history and an expectation of increasing dividends and distributions. Turnover of investments is low and capital gains arising from disposals are reinvested.

Milton also holds liquid assets such as cash and term deposits as well as real property development through joint ventures.

Milton aims to pay increasing fully franked dividends to shareholders over time.

Benefits of investing

Shareholders receive fully franked dividends semi-annually.

Ordinary fully franked dividends are paid out of profit after tax excluding special investment revenue and costs associated with the acquisition of subsidiaries. Dividends have been paid every year since listing and they have been fully franked since the introduction of franking. Special fully franked dividends may be paid out of special investment revenue.

The investment portfolio provides shareholders with exposure to diversified assets.

Milton's \$2.7 billion equity investment portfolio comprises interests in companies and trusts which are listed on the ASX and are expected to deliver increased investment revenue over the long term. Consistent application of this investment philosophy over many years has created a portfolio that is not aligned with any securities exchange index.

Shareholders have an investment in a low cost, efficiently managed company with total administration costs that represent 0.14% per annum of total assets.

Milton's board oversees the performance of its executives who are employed by the company to manage its investments for the benefit of shareholders.

Important Dates

Final Dividend

Ex date:	13 August 2020
Payment date:	2 September 2020
DRP application closing date:	17 August 2020

Annual General Meeting

Meeting date:	20 October 2020
Virtual Meeting	at 3.00pm
The AGM will be webcast and can be viewed at the following link.	
https://agmlive.link/MLT20	

Key Highlights

Net Profit
after tax

A\$

116.9m

Underlying
Operating
Profit⁽¹⁾

A\$

111.3m

Basic
Earnings
Per Share

cents per share

17.45

Underlying
Earnings
Per Share

cents per share

16.6

Fully Franked
Ordinary
Dividends

cents per share

17.5

Dividend
Yield⁽²⁾

4.3%

Total
Assets

A\$

2.9Bn

Management
Expense
Ratio

0.14%

(1) Underlying operating profit excludes special investment revenue and acquisition costs net of tax.

(2) Based on share price as at 30 June 2020 and excludes benefit of franking credits

Contents

Directors Report	2
Operating and Financial Review	2
Dividends	3
Five Year Financial Summary	4
Portfolio Performance	5
Review of Investments	6
Top 25 Investments	6
Classification of Investments	7
Management Expense Ratio (MER)	8
COVID19 concerns and Impacts	8
2021 Financial Year Outlook	8
Board of Directors and Company Secretary	9
Remuneration Report	12
Auditor's Independence Declaration	19
Milton Corporation Foundation	20
Financial Statements	21
Directors' Declaration	48
Independent Auditor's Report	49
Corporate Directory	53
ASX Information	54

Corporate Governance Statement

Our Corporate Governance Statement is available on the company website at milton.com.au/corporate-governance.html and is lodged with ASX with this Report.

Directors Report

for the year ended 30 June 2020

The directors present their report together with the financial statements of the consolidated entity ("Milton") consisting of Milton Corporation Limited and its subsidiaries for the financial year ended 30 June 2020 and the independent auditor's report thereon.

Principal activities

The principal activity of Milton is investment. Milton invests in companies and trusts, real property development, fixed interest securities, and liquid assets such as cash and term deposits. There has been no significant change in the nature of this activity during the financial year.

Operating and Financial Review

Financial Highlights

Milton Corporation reported net profit after tax of \$116.9 million for the year ended 30 June 2020, a decrease of 20.8% on the prior year. This represents earnings of 17.45 cents per share.

Special dividend income was \$5.8 million in 2020, a reduction of 59% from the elevated \$14.1 million of special dividend income in the 2019 financial year.

Special dividends from companies including ASX, RIO Tinto, Telstra, TPG and TUAS were received in 2020. Resource companies are continuing to enjoy favourable trading conditions and elected to return the capital generated to shareholders. TPG/TUAS was a result of corporate restructuring related to the TPG Vodafone merger.

Underlying profit after tax for 2020, which excludes special dividend income, was \$111.3 million, a decrease of 16.7% on the prior year. Milton's Board primarily uses underlying profit when determining ordinary dividends to enhance their reliability. Underlying earnings per share decreased by 17.3% to 16.6 cents per share.

Ordinary dividend income of \$117.2 million, generated by Milton's diversified \$2.7 billion portfolio of Australian listed companies, declined by 15.1% in 2020.

The lower dividend income was due to the reduction, deferral or elimination of dividends by many companies, but primarily banks in the second half of the 2020 financial year. Government mandated COVID19 business lockdowns, capital preservation requirements and elevated uncertainty forcing many companies to act to preserve cash.

Milton's investment team took proactive actions in 2020 to reduce some bank and certain other shareholdings to reduce this impact.

Milton's bank shareholdings had been reduced materially in the first half of the financial year due to concerns regarding long-term earnings of certain banks. At the end of the financial year 17% of Milton's investment portfolio was invested in retail banks, reduced from 28% at 30 June 2019.

Trading income was materially higher in 2020 due to a large number of opportunities presented by COVID19 related capital raises.

Dividends

Milton's Board of Directors have declared a final dividend of 8.5 cents per share, payable on 2 September 2020 to shareholders of record on 14 August 2020.

Full year ordinary dividends of 17.5 cents per share were declared in relation to 2020 earnings. This represents a payout ratio of 105.5% of Milton's 2020 underlying profit after tax.

All 2020 dividends are fully franked and Milton has \$98.4 million of remaining franking credits after the payment of the final dividend.

It is the Board's expectation that dividend income from Milton's investment portfolio will remain under pressure in 2021 whilst uncertainty regarding the path and duration of COVID19 related lockdowns continues.

Dividends paid or declared by Milton to members since the end of the previous financial year are shown in the table opposite.

Dividend Reinvestment Plan (DRP)

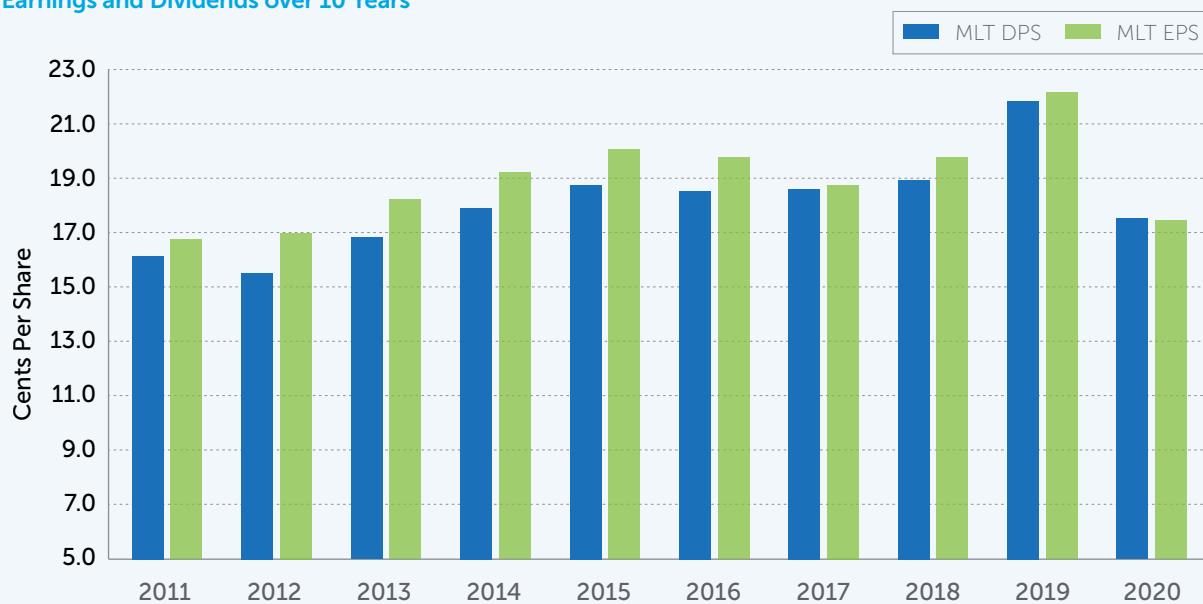
The DRP will be available for the final dividend. The last day for receipt of an election to participate is 17 August 2020.

Dividends

	Cents per share ¢	Total amount \$'000	Date of payment
Declared and paid during the year			
Final 2019 ordinary fully franked	10.4	69,572	3 September 2019
Interim 2020 ordinary fully franked	9.0	60,323	5 March 2020
Declared after end of year and not provided for at 30 June 2020			
Final 2020 ordinary fully franked	8.5	57,063	2 September 2020

No LIC capital gain was included in the above dividends.

Earnings and Dividends over 10 Years



Dividends per share (DPS)
Earnings per share (EPS)

Five Year Financial Summary

	2020	2019	2018	2017	2016
Underlying operating profit after tax ¹ (\$m)	111.3	133.6	128.8	122.0	126.4
Underlying earnings per share (cents)	16.6	20.1	19.6	18.7	19.5
Profit after tax (\$m)	116.9	147.7	130.0	122.4	127.9
Earnings per share (cents)	17.45	22.2	19.8	18.8	19.8
Management Expense Ratio (%)	0.14	0.14	0.14	0.12	0.13
Interim dividend (cps)	9.0	9.0	8.8	8.7	8.7
Final dividend (cps)	8.5	10.4	10.2	10.0	9.9
Full year ordinary dividend (cps)	17.5	19.4	19.0	18.7	18.6
Special dividend (cps)	–	2.5	–	–	–
Net assets ² at 30 June (\$m)	2,863	3,292	3,114	2,939	2,746
NTA per share pre-tax ² at 30 June (\$)	4.26	4.92	4.73	4.51	4.22
NTA per share post-tax ³ at 30 June (\$)	3.83	4.30	4.16	3.99	3.79
Last sale price at 30 June (\$)	4.09	4.71	4.61	4.51	4.28
All Ordinaries Index at 30 June	6,001	6,699	6,290	5,764	5,310
Ten year TSR (% per annum)	7.2	9.7	6.5	4.7	5.3
Five year TSR (% per annum)	2.5	5.2	9.1	12.9	11.4
Shares on issue (million)	671.3	669.0	658.2	651.9	649.9
Number of shareholders	29,514	26,995	25,864	24,726	23,729

Notes

- Underlying operating profit after tax excludes special investment revenue and costs associated with the acquisition of subsidiaries.
- Before provision for tax on unrealised capital gains and before providing for the ordinary final dividend.
- After provision for tax on unrealised capital gains and before providing for the ordinary final dividend.

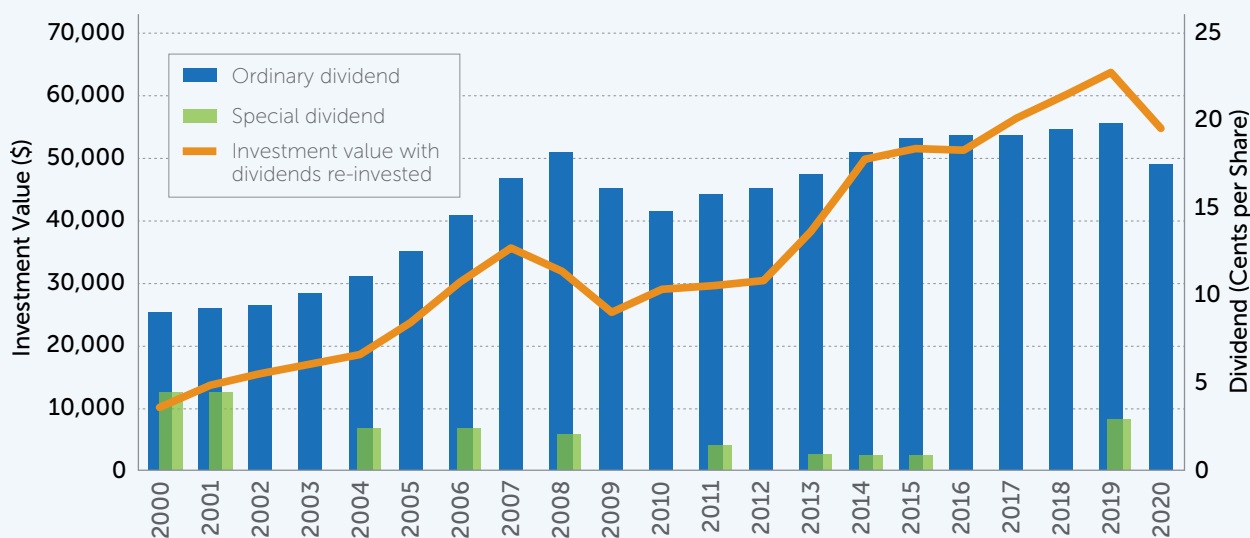
Directors Report

continued

Portfolio Performance

Milton's portfolio reflects the emphasis placed on investing in companies that pay increasing dividends over the long term from quality earnings streams. Milton's portfolio is not aligned to any index so it may underperform broad market indices over the short term. Milton's long term returns are shown below. The returns do not take into account the benefit of franking credits which may be utilised by some shareholders.

Dividend and Investment Growth over 20 years



If \$10,000 invested in MLT in June 2000, and if dividends were re-invested over the 20 years, the value of the investment in June 2020 would be worth \$54,670. Ordinary dividends increased from 8.60cps in FY2000 (adjusted for 5:1 split in Oct 2013) to 17.5cps in FY2020.

Total Returns over Periods Up to 20 Years



Total portfolio return (TPR) is the percentage change in Milton's NTA per share plus dividends received by shareholders.
Total shareholder return (TSR) is the percentage change in Milton's share price plus dividends received by shareholders.
 TPR and TSR above do not take into account franking credits which may be of benefit to certain shareholders.

Directors Report

continued

Review of Investments

Milton's total assets were \$2.9 billion at 30 June 2020 (2019: 3.3 billion). Net Tangible Assets (NTA) per share before deferred tax liability was \$4.26 per share.

Total portfolio return, combining Milton's NTA per share movement and dividends received by shareholders was -9.8%.

Cash balances at 30 June 2020 were \$114.1 million, increased from \$110.3 million at 30 June 2019.

Milton continues to have no debt.

The 2020 financial year was transformative for Milton's investment portfolio, with bank weighting reduced from 28% at 30 June 2019, to 17% at 30 June 2020. Our long-term bank shareholdings were reduced due to concerns regarding earnings and dividend growth. These concerns stem from declining credit quality, increased compliance costs and the impact of technology based disruption.

In a large part these reductions occurred in the first half of 2020, before COVID19 concerns surfaced.

Milton retains significant investments in Commonwealth Bank, Westpac and NAB and believe that the long-term outlook favours larger banks that are better able to continue to invest in their platforms.

Milton's portfolio is presently comprised of 71 listed companies, that number reduced from 85 at 30 June 2019.

In a highly volatile year for the equity markets, which saw a 37% fall in the All Ordinaries from the peak in February 2020 due to COVID19 concerns and then a 31% rebound due to investor optimism, Milton remained invested and took advantage of the opportunities presented by volatility and company capital raises.

During the 2020 financial year, \$269.8 million was added to new and existing investments. Investments were increased in Macquarie Group, Transurban, Sydney Airports, BHP, Cleanaway, IOOF, Origin Energy, Sonic Healthcare, Amcor, REA, Charter Hall, Altium and Qube. New investments were made in Pro Medicus, Johns Lyng Group and Magellan Financial Group.

\$276.2 million of sales were made in 2020 and included the complete disposal of Milton's investments in ANZ Bank, Bank of Queensland, Bendigo and Adelaide Bank, Auswide Bank, Janus Henderson, Flight Centre, Blackmores, New Hope, Regis, Adelaide Brighton, Boral, Dulux and Orica. Investments in Westpac and QBE were also reduced.

There remains, as seen in previous years, a high level of dispersion between high growth companies and those that are perceived to be more defensive. Valuations in the industrials sector are at record levels with historically low

interest rates a primary contributor. Sectors such as health care and technology outperformed banks and resource companies materially.

The Milton management team, with the support of the Investment Committee, continue to review and modify our portfolio on an ongoing basis. Milton's portfolio reflects the emphasis we place on companies that pay increasing dividends over the long term from quality earnings streams.

We believe that the portfolio is well positioned to grow its dividend income over the long term, but recognise that the current situation is one of elevated volatility.

Table B. Top 25 investments at 30 June 2020

	Market Value
	\$m
Commonwealth Bank	218.0
Macquarie Group Limited	192.8
Westpac Banking Corporation	179.2
W H Soul Pattinson & Company	179.2
BHP Group Limited	173.9
CSL Limited	172.5
Wesfarmers Limited	129.0
Woolworths Group Limited	109.5
National Australia Bank Limited	88.7
Transurban Group Limited	82.2
Rio Tinto Limited	65.5
AGL Energy Limited	60.9
Brickworks Limited	51.2
Coles Group Limited	49.4
Telstra Corporation Limited	47.7
ASX Limited	46.9
A P Eagers Limited	45.9
ALS Limited	39.9
Perpetual Limited	36.6
Amcor PLC	35.2
Insurance Australia Limited	34.8
Suncorp Group Limited	29.7
Sonic Healthcare Limited	28.6
TPG Telecom Limited	28.1
Woodside Petroleum Limited	27.9
Total market value of Top 25	2,153.3
Total Assets	2,866.1

Classification of Investments by Sector

The following asset classification table shows the composition of Milton's assets by sector.

Classification ¹	Closing position \$m	Additions \$m	Disposals ³ \$m	Change in value \$m	Opening position \$m	2020 Income \$m	Closing position weighting %
Bank	486.0	–	(180.1)	(257.4)	923.5	35.1	17.0
Diversified Financials	344.6	112.1	(11.7)	(25.2)	269.4	14.2	12.0
Materials	329.5	39.6	(39.8)	(39.1)	368.8	18.2	11.5
Consumer Staples	309.7	–	(24.6)	32.3	302.0	10.6	10.8
Energy	227.9	10.4	(1.7)	(44.1)	263.3	8.1	8.0
Health Care	224.5	9.1	(2.5)	41.2	176.7	3.1	7.8
Transport	136.4	36.1	–	(16.2)	116.5	4.3	4.8
Real Estate	111.1	19.2	–	(21.4)	113.3	5.5	3.9
Insurance	95.1	6.1	(15.7)	(25.2)	129.9	5.4	3.3
Commercial Services	87.5	14.1	(0.2)	(10.4)	84.0	2.6	3.1
Utilities	84.0	–	–	(9.9)	93.9	5.0	2.9
Telecommunications	76.8	1.2	–	(3.3)	78.9	5.3	2.7
Retailing	72.4	–	–	(20.0)	92.4	2.3	2.5
Media	39.7	10.6	–	1.5	27.6	1.1	1.4
Capital Goods	31.7	2.5	–	(17.6)	46.8	0.8	1.1
Information Technology	26.7	7.8	(0.5)	0.8	18.6	0.3	0.9
Consumer Services	21.5	1.0	(0.8)	(13.2)	34.5	0.9	0.7
Other shares	1.1	–	–	–	1.1	0.1	–
Total equity investments	2,706.2	269.8	(277.6)	(427.2)	3,141.2	122.9	94.4
Liquids ²	125.0				125.5	1.5	4.4
Property joint ventures	24.7				23.1	0.9	0.9
Other assets	10.2				4.1	1.5	0.3
Total	2,866.1				3,293.9	126.8	100.0

Notes

- Investments are grouped according to their asset classes using the Global Industry Classification ("GICS") codes.
- Liquids include cash, term deposits, hybrid securities and dividends receivable.
- Includes capital returns of \$1.4 million.

Directors Report

continued

Management Expense Ratio (MER)

Milton is fully internally managed, with no performance or management fees paid. Investment staff are focused on maximising net returns to shareholders with Management and the Board aligned with shareholders.

Milton's MER for the 2020 year was 0.14% which is unchanged from 2019.

COVID19 Concerns and Impacts

The emergence of COVID19 has had broad impact on economies, companies and individuals. The pandemic remains a major global issue, and is likely to have ongoing impact until a vaccine or treatment emerges.

Milton have taken steps to ensure that its employees are working in a safe environment, and the company has continued to operate as normal, with some employees working remotely.

This year's Annual General Meeting will be held virtually to ensure the safety of shareholders and employees and to be consistent with government guidelines.

Milton, as a long-only equity market investor focused on income growth, is directly exposed to the ongoing volatility in investment markets at present. We expect this volatility to continue and have taken steps to ensure that we retain an appropriate amount of financial flexibility. Milton's portfolio has been adjusted to best reflect those concerns, with volatility during the year also providing opportunity to add to certain investments.

Of particular concern to Milton is the likelihood that companies will continue to reduce, delay or cancel dividends in 2021. These decisions may be driven by further outbreaks, extended lockdowns, the impact of economic recession or regulators.

These concerns have contributed to Board decisions regarding the final dividend, notwithstanding the elevated payout ratio at present, and is further expressed in the robust levels of cash held at 30 June 2020.

Milton's management team and Board are confident that we are well positioned and will continue to review the situation, and Milton's portfolio, as new information emerges.

2021 Financial Year Outlook

Milton forecasts that company earnings and dividend growth will remain limited as uncertainty regarding the impact of COVID19 persists and companies conserve cash in a highly uncertain environment.

As a result, we expect that Milton's earnings will be lower in 2021.

We note however that forecasting in such an uncertain environment is very challenging.

A disconnect currently exists between expensive asset prices and an uncertain short-term earnings environment. Much of the recent rise in asset prices is driven by the extraordinary actions of governments and central banks to support individuals and businesses affected by economic lockdowns with income support and low interest rates.

Low interest rates are expected to persist for the near future, driving investors to equity markets and supporting valuations. Low term deposit rates will also reduce returns on Milton's cash balances.

Notwithstanding Milton's much reduced bank sector investments, we remain particularly concerned about pressure on bank earnings and dividends due to compliance costs, declining credit quality and the impact of technology based disruption.

We remain confident that our resource stocks are well positioned to generate growing income due to high iron ore prices and low debt levels.

The accelerating impact of technology, climate policy and the rate of change in the business cycle continue to be major factors for all companies.

Milton expects that special dividends of the magnitude received in 2020 are unlikely to recur in the 2021 financial year.

Milton's joint venture investments are positively exposed to growing first homebuyer activity and are expected to improve in 2021, assisted by generous government schemes.

Milton's strong balance sheet with no debt, available profit reserves and franking credits provides confidence in Milton's ability to continue paying fully franked dividends.

A further update on the portfolio and underlying market conditions will be provided at Milton's Annual General Meeting to be held on 20 October 2020.

Board of Directors and Company Secretary

Directors

The directors of Milton at any time during or since the end of the financial year are:

Robert D. Millner FAICD

Independent non-executive chairman

Director of Milton Corporation Limited since 1998 and appointed chairman in 2002. Chairman of the Investment and Remuneration Committees. Extensive experience in the investment industry.

Other current directorships:

Director of Australian Pharmaceutical Industries Limited since 2000, Director of Apex Healthcare Berhad since 2000, Chairman of BKI Investment Company Limited since 2003, Director of Brickworks Limited since 1997 and appointed chairman in 1999, Director of New Hope Corporation Limited since 1995 and appointed chairman in 1998, Director of TPG Telecom Limited since 2000, Director of Tuas Limited since June 2020, Director of Washington H. Soul Pattinson & Company Limited since 1984 and appointed chairman in 1998.

Former directorships in the last three years:

Australian Pharmaceutical Industries Limited from 2000 to June 2020.

Graeme L. Crampton B.Ec, FCA, FAICD

Independent non-executive director

Director of Milton Corporation Limited since 2009. Chairman of the Audit & Risk Committee and a member of the Remuneration Committee. A Chartered Accountant and former partner of a major firm of Chartered Accountants for more than 28 years and has extensive experience in the investment industry.

Kevin J. Eley CA, F Fin, FAICD

Independent non-executive director

Director of Milton Corporation Limited since 2011. Member of the Investment and Audit & Risk Committees. A Chartered Accountant and has extensive experience in the investment industry.

Other current directorships:

Director of EQT Holdings Limited since 2011 and HGL Limited since 1985. Director of Pengana Capital Group Limited since 2017 (formerly Hunter Hall International Limited from 2015 to 2017).

Justine E. Jarvinen BE(Chem), F Fin, GAICD

Independent non-executive director

Appointed a non-executive director of Milton since August 2017. Member of the Investment Committee. An Engineer with experience in equity markets and strategy development.

Brendan J. O'Dea B.Ec, M.Bus, CA, MAICD

Managing Director

Managing Director of Milton Corporation Limited with effect from 1 August 2018. Member of the Investment Committee. A Chartered Accountant and has extensive investing and business management experience with over 22 years at a global investment bank as a Managing Director.

Ian A. Pollard BA (Macq), MA (Oxon), D Phil (IMC),

FIAA, FAICD

Independent non-executive director.

Director of Milton Corporation Limited since 1998. Member of the Audit & Risk and Remuneration Committees. An Actuary and over 43 years of involvement in the investment industry.

Former directorships in the last three years:

Billabong International Limited from 2012 to 2018, SCA Property Group from 2012 to 2018.

Company Secretary

Nishantha Seneviratne MBA, ACMA, CGMA,

CPA, AICM, AGIA, ACIS

Appointed Company Secretary and Chief Financial Officer in December 2012. Mr Seneviratne joined Milton as the Senior Accountant in March 2010. Prior to joining Milton, he was a Financial Controller for a group of private companies for over six years. He is an associate member of the Governance Institute of Australia (GIA) and Institute of Chartered Secretaries and Administrators (ICSA).

Directors Report

continued

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of Milton during the financial year are shown in Table D below.

Directors' relevant interests

No director has or has had any interest in a contract entered into since the last Directors' Report or any contract or proposed contract with Milton or any subsidiary or any related entity other than as disclosed in note 17 to the financial statements.

The relevant interest of each director in the capital of Milton at the date of this report is as follows:

Director	Number of Shares
R.D. Millner	13,047,096
G.L. Crampton	169,172
K.J. Eley	131,000
B.J. O'Dea	388,392
J.E. Jarvinen	15,000
I.A. Pollard	91,129

Table D. Directors' Meetings

Director	Directors' Meetings		Investment Committee Meetings		Audit & Risk Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
R.D. Millner	7	7	21	22	*	*	1	1	1	1
G.L. Crampton	7	7	*	*	5	5	1	1	1	1
K.J. Eley	7	7	22	22	5	5	1	1	*	*
B. O'Dea ⁽²⁾	7	7	22	22	*	*	1	1	*	*
I.A. Pollard	7	7	*	*	5	5	1	1	1	1
J.E. Jarvinen	7	7	19	22	*	*	*	*	*	*

A Number of meetings attended.

B Number of meetings held during the time the director held office or was a member of the committee during the year.

* Not a member of the relevant committee.

Indemnification and insurance of directors, officers and auditors

Neither Milton nor any related entity has indemnified or agreed to indemnify, paid or agreed to pay any insurance premium which would be prohibited under Section 199A or Section 199B of the *Corporations Act 2001* during or since the financial year ended 30 June 2020.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contracts.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of Milton during the past financial year other than as disclosed in the financial statements.

Events subsequent to reporting date

Apart from the information contained in note 24 to the financial statements, no matter or circumstance has arisen since the end of the financial year that has or may significantly affect the operations, results or state of affairs of Milton in subsequent financial years.

Likely developments

Milton will continue its investment activities consistent with its objective of generating increasing revenue for distribution to its shareholders from its diversified portfolio of assets.

The performance of Milton's investments is subject to and influenced by many external factors and therefore it is not appropriate to predict the future results of the investments and Milton's performance.

This Directors Report contains information relating to Milton's past performance, review of operations and outlook.

Environmental regulations

There are no significant environmental regulations that apply directly to Milton.

Environmental, Social and Governance matters are considered by Milton's Investment committee to ensure sustainability of income.

Non-audit services

During the year, Pitcher Partners, Milton's auditor, has performed certain non-audit services in addition to its statutory duties. Details of the amounts paid to the auditors and related practices of the auditor are disclosed in note 19 to the consolidated financial statements.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by Milton and have been reviewed and approved by the Audit & Risk Committee to ensure they do not impact on the integrity and objectivity of the auditor, and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *APES110 Code of Ethics for Professional Accountants (including Independence Standards)*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for Milton, acting as an advocate for Milton or jointly sharing risks and rewards.

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 19.

Rounding off

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, and in accordance with that legislative instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Remuneration Report

for the year ended 30 June 2020

This report, which is audited, details the policy for determining the remuneration of directors and executives and provides specific details of their remuneration.

Remuneration of non-executive directors

Non-executive directors are paid base fees, committee fees and superannuation contributions.

Fees are not linked to Milton's performance and no bonuses are paid or options issued.

Each year the base fees and committee fees are determined by the board of directors who take into account the demands made on directors and the remuneration of non executive directors of comparable Australian companies.

Base fees and committee fees (including superannuation contributions)

	2020	2019
	\$	\$
Chairman base fee	147,358	143,764
Director base fee	73,679	71,882
Chairman of the Audit & Risk Committee fee	6,520	6,361
Member of the Audit & Risk Committee fee	3,696	3,606
Member of the Investment Committee fee	6,520	6,361

The total remuneration paid to non-executive directors in 2020 was \$475,546 (2019: \$463,946).

In October 2011 shareholders approved an increase in the maximum non-executive directors' total remuneration to \$700,000.

Non-executive directors, who were appointed before 30 June 2003, are entitled to retirement benefits in accordance with a shareholder approved scheme. In June 2003 the board resolved to cap retirement benefits for all directors at the amounts provided as at 30 June 2003. The total balance provided at 30 June 2020 is \$100,905 (2019: \$100,905).

Remuneration of executives

Executive remuneration is a key element of the staff retention strategy which is designed to attract and retain appropriately qualified and experienced professionals who share Milton's goals and values and will seek to deliver superior long term returns to its shareholders.

The remuneration of the managing director and senior executives is reviewed annually by the Remuneration Committee which then makes recommendations to the board for its consideration and approval.

In formulating its recommendations, the Remuneration Committee considers:

- the short term and long term performance of the Company as measured by dividend growth and total returns;
- the contribution of the managing director and the senior executives to this performance;
- market trends in remuneration in terms of both quantum and structure; and
- the remuneration of key management personnel of other listed investment companies with similar long term investment philosophies and objectives.

Executive remuneration includes a component known as the Total Employment Cost Package (TECP), and it may include a cash bonus component and an equity component.

The TECP includes cash salary, company contributions to superannuation and it may include non monetary benefits such as the provision of a motor vehicle and car parking.

No executive is entitled to a guaranteed bonus however the board may award a cash bonus to reward an executive's outstanding contribution to the achievement of Milton's objectives. The board will consider qualitative measures such as contribution to the investment process, participation in board discussions, timeliness and accuracy of reports and staff development when assessing executive performance.

In determining the amount of any bonus the board has regard to quantitative measures such as underlying operating earnings per share, dividends per share and total returns relative to the market as a whole. Average cash bonus paid was 13% of TECP for 2020.

The equity component of the remuneration package encourages executives to have an investment in Milton to align their interests with shareholders.

The equity component is delivered through participation in the Senior Staff Share Plan ("SSSP"), which was approved by shareholders at Milton's Annual General Meeting on 9 October 2001 (refer note 18b to the financial statements).

In accordance with the terms of the SSSP, the directors determine the maximum number of shares for which the executive may apply. All SSSP shares are acquired on the market and held on behalf of the executives by the trustee of the SSSP. The price offered to the executive shall be at a discount of one cent per share to the market value of the shares.

Executives are required to hold the SSSP shares for a minimum period of three years however the benefit to the executive is increased through long term ownership to the extent dividends are paid and the Milton share price appreciates.

Milton provides an interest free loan to the executives to fund the acquisition of each parcel of SSSP shares. Each loan is repaid by the application of the after tax proceeds from the dividends paid on the SSSP shares. The opportunity cost to Milton of providing the loan is the notional interest. The Remuneration Committee includes this cost when it reviews each executive's TECP.

SSSP shares may not be sold, transferred, mortgaged or otherwise dealt with by the executive for a period of three years from the date of issue or until the executive ceases employment with Milton.

If the executive's employment ceases, the executive may within 30 days repay the loan and direct the trustee to transfer the shares to the executive or, provided the value of the shares is greater than the loan outstanding, direct the trustee to sell the shares, repay the loan and distribute the balance to the executive. Otherwise the trustee will sell the shares when so directed by Milton and apply the proceeds to the repayment of the loan.

The board considers that the SSSP is appropriately designed to encourage long term ownership of shares by executives, which then aligns their interests with that of Milton's predominantly long term shareholder base.

Executives, other than the managing director, may participate in the Employee Share Plan ("ESP") which provides for a bonus of up to \$1,000 to be paid in the form of Milton shares (refer note 18a to the financial statements).

Eligible executives are provided with life, total and permanent disablement and salary continuance insurance.

The overall level of executive reward takes into account the performance of Milton over a number of years. Key performance indicators for Milton over five years are tabled on the following page.

At Milton's 2019 Annual General Meeting, shareholders supported the remuneration report for the 2019 financial year with 84.8% of the proxies in favour of the resolution to approve the report. The resolution to approve the remuneration report was passed by a show of hands at the Annual General Meeting held in October 2019.

Remuneration Report

continued

Key performance indicators

	2020	2019	2018	2017	2016
Profitability					
Underlying operating profit (\$ million)	111.3	133.6	128.8	122.0	126.4
(Decline) growth in underlying operating profit (%)	(16.7)	3.7	5.6	(3.5)	1.1
Underlying earnings per share (cents)	16.6	20.1	19.6	18.7	19.5
(Decline) growth in underlying earnings per share (%)	(17.3)	2.4	4.7	(4.1)	(0.4)
Dividend					
Full year ordinary dividend (cents per share)	17.5	19.4	19.0	18.7	18.6
(Decline) growth in full year ordinary dividend (%)	(9.8)	2.1	1.6	0.5	1.1
Special dividend (cents per share)	–	2.5	–	–	–
Capital					
Net asset backing per share pre-tax ⁽¹⁾ at 30 June (\$)	4.26	4.92	4.73	4.51	4.22
(Decline) growth in net asset backing per share (%)	(13.4)	4.0	4.9	6.9	(3.9)
Net assets ⁽¹⁾ at 30 June (\$ million)	2,863	3,292	3,114	2,939	2,746
Total Return					
Ten year Total Shareholder Return (TSR)	7.2	9.7	6.5	4.7	5.3
Ten year Total Portfolio Return (TPR)	7.1	9.6	6.9	4.2	5.6
Ten year accumulation return of the All Ordinaries Index (XAOAI)	7.8	10.0	6.2	3.5	4.9

¹ Before provision for tax on unrealised capital gains

Details of remuneration

Amounts of remuneration

Details of the remuneration of each non-executive director of Milton Corporation Limited, the managing director and specified executives of Milton for the years ended 30 June 2019 and 2020 are set out in the following tables.

Non-executive directors of Milton Corporation Limited

Non-executive directors			Short Term	Post Employment	Retirement	Total	Retirement
			Benefits – Fees	Super-annuation	Benefits paid	Paid	Provision ⁽¹⁾
			\$	\$	\$	\$	\$
R.D. Millner	Chairman	2020	140,528	13,350	–	153,878	55,905
		2019	137,100	13,025	–	150,125	55,905
G.L. Crampton	Director	2020	56,199	24,000	–	80,199	–
		2019	54,242	24,000	–	78,242	–
K.J. Eley	Director	2020	76,616	7,279	–	83,895	–
		2019	74,747	7,101	–	81,848	–
I.A. Pollard	Director	2020	70,662	6,713	–	77,375	45,000
		2019	68,938	6,549	–	75,487	45,000
J.E. Jarvinen	Director	2020	73,241	6,958	–	80,199	–
		2019	71,453	6,788	–	78,241	–
Total remuneration		2020	417,246	58,300	–	475,546	100,905
		2019	406,480	57,463	–	463,943	100,905

1 The directors' retirement benefits have been capped at the balance provided at 30 June 2003

Remuneration Report

continued

Managing director and executives of Milton Corporation Limited and its subsidiaries

Managing director and executives		Short Term Benefits					Total
		Salary	Cash Bonus ⁽¹⁾	Post Employment Super-annuation	Other long term benefits ⁽²⁾	Share based payments ⁽³⁾	
		\$	\$	\$	\$	\$	\$
B.J. O'Dea ⁽⁴⁾ Managing Director	2020	651,000	112,500	24,000	–	68,580	856,080
	2019	572,672	125,000	23,995	–	42,490	764,157
F.G. Gooch Former MD	2020	–	–	–	–	–	–
	2019	62,897	49,723	18,795	219,357	11,291	362,063
D.N. Seneviratne CFO, secretary	2020	205,740	27,500	19,260	3,461	38,616	294,577
	2019	190,062	30,000	17,438	7,317	34,180	278,997
Total remuneration	2020	856,740	140,000	43,260	3,461	107,196	1,150,657
	2019	825,631	204,723	60,228	226,674	87,961	1,405,217

1 Represents 100% of cash bonus paid or payable which vested in the year.
2 Other long term benefits comprise changes in long service leave provisions and long service leave paid.
3 Represents the notional value of interest on loans provided to acquire Milton shares under the Senior Staff Share Plan.
4 B.J. O'Dea appointed the CEO and Managing Director on 1 August 2018 upon retirement of Mr F.G. Gooch.

The relative proportions of total remuneration of above key management personnel that are fixed or related to performance are as follows:

	Fixed remuneration		Performance-related STI		Performance-related LTI	
	2020	2019	2020	2019	2020	2019
B.J. O'Dea	78.8%	78.1%	13.1%	16.4%	8.1%	5.5%
F.G. Gooch	–	83.1%	–	13.7%	–	3.2%
D.N. Seneviratne	77.6%	77.0%	9.3%	10.8%	13.1%	12.2%

There are no fixed term employment contracts between Milton and its employees. Employment may be terminated with four weeks' notice by either Milton or the employee. There are contractual provisions for any termination payments other than for unpaid annual and long service leave.

Share based compensation, Senior Staff Share Plan equity holdings and loans

The movements during the reporting period are as follows:

Executives' shareholdings in relation to the Senior Staff Share Plan – Number of shares held

		Opening Balance Shares	Received as Remuneration Shares	Closing Balance Shares
B.J. O'Dea Managing Director	2020	200,000	100,000	300,000
	2019	–	200,000	200,000
F.G. Gooch Former Managing Director	2020	–	–	–
	2019	1,005,000	–	–
D.N. Seneviratne CFO, secretary	2020	177,500	25,000	202,500
	2019	152,500	25,000	177,500

Loans in relation to the Senior Staff Share Plan

Details regarding loans outstanding at the reporting date to specified directors and specified executives, are as follows:

		Opening Balance \$	Net change \$	Closing balance \$	Highest balance in the year \$	Notional Interest ⁽¹⁾ \$
B.J. O'Dea Managing Director	2020	915,186	437,541	1,352,727	1,396,793	68,580
	2019	–	915,186	915,186	932,600	42,490
F.G. Gooch Former Managing Director	2020	–	–	–	–	–
	2019	2,556,592	(2,556,592)	–	2,556,592	11,291
D.N. Seneviratne CFO, secretary	2020	652,313	90,658	742,971	772,715	38,616
	2019	562,971	89,342	652,313	679,546	34,180

1 The notional interest has been included under "Share Based Payment" in the remuneration of the managing director and the executive disclosed on page 16. Notional interest is based on the applicable FBT benchmark interest rate, which for the year averaged 5.20% (2019: 5.24%).

Apart from the loan balances shown above, there were no loans outstanding to key management personnel. Terms and conditions of the loans are referred to in note 18b to the financial statements.

Remuneration Report

continued

Share holdings of key management personnel and their related parties – Number of shares held

		Opening Balance	Received as Remuneration	Other Acquisitions	Closing Balance
		Shares	Shares	Shares	Shares
B.J. O'Dea Managing Director	2020	252,141	100,000	36,251	388,392
	2019	50,000	200,000	2,141	252,141
F.G. Gooch Former Managing Director	2020	–	–	–	–
	2019	1,310,110	–	–	–
D.N. Seneviratne CFO, secretary	2020	178,907	25,000	–	203,907
	2019	153,907	25,000	–	178,907

Signed in accordance with a resolution of the directors.

R.D. MILLNER

Chairman

Sydney, 6 August 2020

Auditor's Independence Declaration



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Auditor's Independence Declaration to the Directors of Milton Corporation Limited ABN 18 000 041 421

I declare that to the best of my knowledge and belief, during the year ended 30 June 2020 there have been no contraventions of:

- i) the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii) *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Milton Corporation Limited and the entities it controlled during the year.

A handwritten signature in blue ink that reads 'S.S. Wallace'.

S.S. Wallace
Partner

6 August 2020

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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Milton Corporation Foundation

ABN 95 051 921 133



The Foundation was established in 1988 to support charitable organisations, particularly those which direct assistance to persons that are disadvantaged in the community.

The objective is to create a vehicle with sufficient capital that can make regular meaningful donations from the earnings derived from its investments. Contributions from Milton, shareholders and others over the years have helped to grow the Foundation's total assets at 30 June 2020 to \$2.0 million.

Milton Foundation's assets can now support annual distributions of over \$100,000. In 2020, a total of \$120,000 was distributed to fifteen organisations, which provide much needed support for the disadvantaged in society in Australia.

The Foundation has provided \$2.48 million of assistance to the community since its establishment.



Shareholders can support the Foundation by either:

Forwarding a cheque to:

The Trustees
Milton Corporation Foundation
PO Box R1836
Royal Exchange NSW 1225

or

Direct deposit into the bank account:

Account Name: Milton Corporation Foundation
BSB: 082-067
Account No: 038263869



The Foundation is a deductible gift recipient registered with the Australian Charities and Not-for-profits Commission (ACNC) and donations of \$2 or more are tax deductible.

J.F. CHURCH
Chairman of Trustees

Sydney, 6 August 2020

Financial Statements

Contents

Financial Statements

Consolidated Income Statement	22
Consolidated Statement of Comprehensive Income	23
Consolidated Statement of Financial Position	24
Consolidated Statement of Changes in Equity	25
Consolidated Statement of Cash flows	26

Notes to the financial statements

Key Numbers

1.	Revenue	27
2.	Tax	28
3.	Earnings Per Share	30
4.	Dividends Paid	30
5.	Dividend Franking Account	31
6.	Listed Investment Company capital gain account	31

Assets

7.	Investments in equity instruments	32
8.	Investment in joint venture entities	33
9.	Cash	34
10.	Receivables	34

Capital Management:

11.	Share Capital	35
12.	Reserves	35

Risk

13.	Critical accounting estimates, judgements and assumptions	36
14.	Management of financial risk	36
15.	Capital risk management	37

Group Structure

16.	Subsidiaries	38
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Other Information

17.	Related party transactions	39
18.	Share Based Payments	41
19.	Auditor's Remuneration	41
20.	Parent entity disclosures	42
21.	Summary of other accounting policies	43
22.	Cash flow information	45
23.	Contingent liabilities	45
24.	Events subsequent to reporting date	45
25.	Holdings at Fair Value through Other Comprehensive Income at 30 June 2020	46

Consolidated Income Statement

for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Ordinary dividends and distributions	1a	117,210	138,070
Interest	1c	1,478	2,629
Net gains on trading portfolio	1d	789	169
Other revenue		661	551
Operating Revenue		120,138	141,419
Share of net profits of joint ventures – equity accounted	8a	888	1,504
Special dividends and distributions	1b	5,761	14,115
Income from operating activities		126,787	157,038
Administration expenses		(4,528)	(4,220)
Acquisition related costs of subsidiaries		–	(124)
Profit before income tax expense		122,259	152,694
Income tax expense thereon	2a	(5,302)	(5,042)
Profit attributable to shareholders of Milton		116,957	147,652

	Note	2020 Cents	2019 Cents
Basic and diluted earnings per share	3	17.45	22.19

The Consolidated Income Statement is to be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2020

	2020	2019
	\$'000	\$'000
Profit	116,957	147,652
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Revaluation of investments	(427,178)	123,000
Provision for tax benefit (expense) on revaluation of investments	127,171	(37,458)
Other comprehensive income, net of tax	(300,007)	85,542
Total comprehensive income for the year attributable to the shareholders of Milton	(183,050)	233,194

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash	9	114,069	110,306
Receivables	10a	10,938	15,187
Prepayments		410	275
Total current assets		125,417	125,768
Non-current assets			
Investments	7	2,706,159	3,141,236
Joint ventures – equity accounted	8b	24,709	23,125
Receivables		4,117	3,431
Property, plant and equipment		5,376	37
Deferred tax assets	2c	292	294
Total non-current assets		2,740,653	3,168,123
Total assets		2,866,070	3,293,891
Current liabilities			
Payables		1,456	1,182
Current tax liabilities		782	280
Provisions		66	68
Total current liabilities		2,304	1,530
Non-current liabilities			
Deferred tax liabilities	2d	289,725	416,657
Provisions		274	258
Total non-current liabilities		289,999	416,915
Total liabilities		292,303	418,445
Net assets		2,573,767	2,875,446
Shareholders' equity			
Issued capital	11	1,644,321	1,633,055
Capital profits reserve	12b	74,263	66,148
Asset revaluation reserve	12a	661,034	969,156
Retained profits		194,149	207,087
Total equity attributable to shareholders of Milton		2,573,767	2,875,446

The Consolidated Statement of Financial Position is to be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Issued capital \$'000	Capital profits reserve \$'000	Asset revaluation reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	1,633,055	66,148	969,156	207,087	2,875,446
Profit	–	–	–	116,957	116,957
Other comprehensive income	–	–	(300,007)	–	(300,007)
Total comprehensive income	–	–	(300,007)	116,957	(183,050)
Net realised gains	–	8,115	(8,115)	–	–
Transactions with shareholders:					
Share issues	11,266	–	–	–	11,266
Dividends paid	–	–	–	(129,895)	(129,895)
Balance at 30 June 2020	1,644,321	74,263	661,034	194,149	2,573,767

	Issued capital \$'000	Capital profits reserve \$'000	Asset revaluation reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2018	1,582,431	51,651	898,111	203,137	2,735,330
Profit	–	–	–	147,652	147,652
Other comprehensive income	–	–	85,542	–	85,542
Total comprehensive income	–	–	85,542	147,652	233,194
Net realised gains	–	14,497	(14,497)	–	–
Transactions with shareholders:					
Share issues	50,624	–	–	–	50,624
Dividends paid	–	–	–	(143,702)	(143,702)
Balance at 30 June 2019	1,633,055	66,148	969,156	207,087	2,875,446

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Dividends and distributions received		126,106	162,171
Interest received		1,564	2,818
Distributions received from joint venture entities		967	2,500
Other receipts in the course of operations		959	465
Proceeds from sales of trading securities		7,317	169
Payments for trading securities		(6,528)	–
Other payments in the course of operations		(4,740)	(4,557)
Income taxes paid		(4,549)	(4,637)
Net cash provided by operating activities	22a	121,096	158,929
Cash flows from investing activities			
Proceeds from disposal of investments	7c	276,270	44,168
Proceeds from redemption of other financial assets		1,465	1,153
Payments for investments in equities and trusts		(268,670)	(96,674)
Payments for investments in joint ventures		(1,663)	(2,731)
Payments for acquisition related costs of subsidiaries		–	(124)
Cash on acquisition of subsidiaries		–	5,016
Payments for property, plant and equipment		(5,377)	(2)
Loans repaid by other entities		324	3,177
Loans advanced to other entities		(1,043)	(1,258)
Net cash provided by (used in) investing activities		1,306	(47,275)
Cash flows from financing activities			
Payments for share issue costs		(32)	(90)
Ordinary dividends paid	4a	(118,607)	(133,073)
Net cash used in financing activities		(118,639)	(133,163)
Net increase (decrease) in cash assets held		3,763	(21,509)
Cash assets at the beginning of the year		110,306	131,815
Cash assets at the end of the year	9	114,069	110,306

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2020

Key Numbers

1. Revenue

Milton's revenue is derived from dividends, distributions, interest income, profit from joint ventures and net gains arising from the trading portfolio.

	2020	2019
	\$'000	\$'000
a. Ordinary dividends and distributions		
Milton receives ordinary dividend income and trust distributions from its long term investments in companies and trusts listed on the Australian Securities Exchange.		
Investments held in portfolio at 30 June	106,797	137,059
Investments sold during the year	10,413	1,011
	117,210	138,070
b. Special dividends and distributions		
This special investment revenue is received on an ad hoc basis and cannot be relied upon each year.		
Investments held in portfolio at 30 June	5,761	14,111
Investments sold during the year	–	4
	5,761	14,115
c. Interest		
Milton earns interest on its cash, term deposits and other liquid assets.		
Interest from deposits and cash	1,478	2,629
	1,478	2,629
d. Net gains from trading portfolio		
Net gains from trading portfolio	789	169

Dividends and distributions are brought to account on the dates that the securities trade ex-dividend.

Demerger dividends arising from company de-consolidations are treated as a return of capital and not as a dividend.

Interest on cash and term deposits is brought to account on an accruals basis. Interest on other liquid securities is recognised on the date these securities trade ex-dividend.

Trading securities are recognised initially at cost and subsequently measured at fair value. Changes in fair value are taken directly through the income statement.

Dividends from trading securities are brought to account on the dates the securities trade ex-dividend.

Notes to the Consolidated Financial Statements

continued

Key Numbers

2. Tax

This note provides analysis of Milton's income tax expense, shows amounts that are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. The note also details the deferred tax assets and liability balances and their movements.

	2020	2019
	\$'000	\$'000
a. Reconciliation of Income Tax Expense to prima facie tax payable		
Profit before income tax	122,259	152,694
Prima facie income tax expense calculated at 30% on the profit before income tax expense	36,678	45,808
Increase (decrease) in income tax expense due to:		
Tax offset for franked dividends	(30,823)	(40,392)
(Over) provision in prior year	(792)	(804)
Other differences	239	430
Income tax expense on profit	5,302	5,042
b. Tax expense composition		
Current tax on profits for the year	5,857	5,358
(Over) provision in prior year	(792)	(804)
Decrease in deferred tax assets (note 2c)	(2)	58
Increase in deferred tax liabilities (note 2d)	239	430
	5,302	5,042
c. Deferred tax assets		
The balance comprises temporary differences attributable to:		
Provisions	279	274
Share issue expenses	–	4
Other	13	16
Total deferred tax assets	292	294
Movements:		
Balance at 1 July	294	360
Credited (charged) to the income statement	2	(58)
(Charged) to equity	(4)	(8)
Balance at 30 June	292	294
To be recovered within 12 months	39	42
To be recovered after more than 12 months	253	252
	292	294

	2020	2019
	\$'000	\$'000
d. Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised directly in equity:		
Revaluation of investments	289,876	423,999
Realised capital losses	(16,529)	(23,800)
Amounts recognised in profit:		
Gains on scrip for scrip rollovers	16,045	16,043
Income receivable which is not assessable for tax until receipt	333	415
	289,725	416,657
Movements:		
Balance at 1 July	416,657	378,769
Charged to income statement	239	430
(Credited) charged to other comprehensive income	(127,171)	37,458
Balance at 30 June	289,725	416,657
To be settled beyond 12 months	289,725	416,657

The income tax expense for the year is the tax payable on the current year's taxable income based on the current income tax rate applicable for the year adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and any unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Milton Corporation Limited (the parent entity) and its wholly-owned subsidiaries have formed an income tax consolidated group. Each entity in the group recognises its own current and deferred tax, except for any deferred tax assets arising from unused tax losses from subsidiaries, which are immediately assumed by the parent entity. The current tax liability of each group entity is subsequently assumed by the parent entity. There is no tax funding agreement between Milton Corporation Limited and its subsidiaries.

Deferred tax balances attributable to revaluation amounts are recognised directly in equity through the asset revaluation reserve.

e. Offsetting deferred tax balances:

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Deferred tax assets from realised capital losses are offset against deferred tax liabilities from unrealised capital gains.

Deferred tax liabilities have been recognised for capital gains tax on the unrealised gains in the investment portfolio at current tax rates. As Milton does not intend to dispose of the investment portfolio this tax may not be payable at the amount disclosed in Note 2d above. Any tax liability that may arise on disposal of investments is subject to tax legislation relating to the treatment of capital gains and the applicable tax rate at the time of disposal.

Notes to the Consolidated Financial Statements

continued

Key Numbers

2. Tax (continued)

Deferred tax assets relating to carried forward capital losses have been recognised based on current tax rates. Utilisation of the tax losses requires the realisation of capital gains in subsequent years and the ability to satisfy certain tests at the time the losses are recouped. The deferred tax assets related to carried forward capital losses have been offset against the related deferred tax liabilities as disclosed in Note 2d.

3. Earnings Per Share

	2020	2019
	Cents	Cents
Basic earnings per share	17.45	22.19
	\$'000	\$'000
Profit attributable to shareholders of the parent entity	116,957	147,652
	No. of Shares	No. of Shares
Weighted average number of ordinary shares used in the calculation of basic earnings per share	670,366,099	665,320,270

Diluted earnings per share and basic earnings per share are the same because there are no potential dilutive ordinary shares.

4. Dividends Paid

	2020	2019
	\$'000	\$'000
a. Recognised in the current year		
An ordinary final dividend of 10.4 cents per share in respect of the 2019 financial year paid on 3 September 2019 (2019: Ordinary final dividend of 10.2 cents per share paid on 4 September 2018)	69,572	67,133
An ordinary interim dividend of 9.0 cents per share paid on 5 March 2020 (2019: 9.0 cents per share paid on 5 March 2019)	60,323	59,844
No special dividend was paid (2019: Special dividend of 2.5 cents per share paid on 30 April 2019)	–	16,725
	129,895	143,702
Dividends paid in cash	118,607	133,073
Dividends reinvested in shares	11,288	10,629
	129,895	143,702

	2020	2019
	\$'000	\$'000
b. Not recognised in the current year		
Since the end of the financial year, the directors declared an ordinary final dividend in respect of the 2020 year of 8.5 cents per share payable on 2 September 2020 (2019: ordinary final dividend of 10.4 cents per share paid on 3 September 2019)	57,063	69,572

5. Dividend Franking Account

	2020	2019
	\$'000	\$'000
The amount of franking credits available to shareholders for the subsequent financial year, adjusted for franking credits that will arise from the payment of the current tax liability	122,864	128,692
Subsequent to year end, the franking account will be reduced by the proposed final dividend to be paid on 2 September 2020 (2019: final dividend paid on 3 September 2019)	(24,455)	(29,817)
	98,409	98,875

The franking account balance would allow Milton to frank additional dividend payments up to an amount of \$229,621,193 (2019: \$230,709,861) which represents 34 cents per share (2019: 34 cents per share).

6. Listed Investment Company capital gains account

	2020	2019
	\$'000	\$'000
Balance of the Listed Investment Company (LIC) capital gain account available to shareholders for the subsequent financial year	1,655	1,481

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their income tax return. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings, which qualify for LIC capital gains and the receipt of LIC capital gain distributions.

Notes to the Consolidated Financial Statements

continued

Assets

7. Investment in equity instruments

Milton is predominantly a long term investor in companies and trusts listed on the Australian Securities Exchange.

	2020	2019
	\$'000	\$'000
Investments – non-current		
Quoted investments – at fair value	2,705,785	3,140,850
Unquoted investments – at fair value	374	386
	2,706,159	3,141,236
a. Included in quoted investments are:		
Shares in other corporations	2,476,375	2,927,525
Stapled securities in other corporations	229,410	213,325
	2,705,785	3,140,850
b. Included in unquoted investments are:		
Units in trusts	374	386

Investments are recognised initially at cost and Milton has made an irrevocable election to present subsequent changes in fair value of equity instruments in other comprehensive income through the asset revaluation reserve after deducting a provision for the potential deferred capital gains tax liability as these investments are long term holdings of equity instruments.

Listed investments are valued continuously at fair value, which is determined by the unadjusted last-sale price quoted on the Australian Securities Exchange at the measurement date. Use of unadjusted last sale price in an active market such as the Australian Securities Exchange falls within the Level 1 fair value hierarchy of measuring fair value under AASB 13.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

	2020	2019
	\$'000	\$'000
c. Investments disposed of during the year		
The disposals occurred in the normal course of Milton's operations as a listed investment company or as a result of takeovers or mergers.		
Fair value at disposal date		
Equity investments	276,270	44,168
Gains on disposal after tax		
Equity investments	8,115	14,497

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is transferred from the asset revaluation reserve to the capital profits reserve as disclosed in Note 12.

8. Investment in joint venture entities

Milton has a long history of investing in property development joint ventures. Wholly owned subsidiaries of Milton have investments in separate joint venture entities that have non-controlling interests in three property development joint venture partnerships.

	2020	2019
	\$'000	\$'000
a. Contribution from joint venture entities		
Milton has interests in the following joint venture entities:		
33.33% interest in the Ellenbrook Syndicate Joint Venture contribution to operating profit before tax (2019: 33.33%)	1,213	1,561
23.33% interest in The Mews Joint Venture contribution to operating profit before tax (2019: 23.33%)	85	74
50% interest in the LWP Huntlee Syndicate No 2 Joint Venture (2019: 50%)	(410)	(131)
Share of net profits of joint ventures	888	1,504
b. Consolidated interest in the assets and liabilities of the joint venture entities		
Current assets	12,612	14,741
Non-current assets	19,310	19,968
Current liabilities	(2,696)	(3,333)
Non-current liabilities	(3,974)	(7,708)
	25,252	23,668
Provision for diminution in value	(543)	(543)
Net assets	24,709	23,125

Under AASB 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures based on rights and obligations arising from the joint arrangement rather than the legal structure of the joint arrangement.

Each joint venture partnership agreement provides that partners have rights to the net assets of the partnership. Accordingly, Milton has assessed the nature of its joint arrangements and determined that all current interests are joint ventures and thus accounted for using the 'Equity Method'.

Under the 'Equity Method', Milton's investments in joint ventures are valued initially at cost and periodically adjusted for changes in value due to Milton's share in the joint ventures' income or losses, distributions and any call payments.

Notes to the Consolidated Financial Statements

continued

Assets

8. Investment in joint venture entities (continued)

c. Contingencies and capital commitments

Guarantee facility by parent company

Milton agreed to provide a guarantee subject to a maximum of \$10 million to Bankwest to support a repayment of a principal amount on a loan payable on 30 June 2022 (or on a later agreed date) by a joint venture in which LWP Huntlee Syndicate No 2 has a 23.75% interest. This guarantee facility replaced Milton's previous interest servicing guarantee facility of \$10 million to the joint venture, which was cancelled on 8 April 2020.

This facility, which is on commercial terms, is secured by a second ranking mortgage over the real property of the joint venture as well as guarantees provided by other related entities of the joint venture. As at 30 June 2020 Milton's contingent liability amounted to \$10 million (30 June 2019: \$10 million on the previous interest servicing guarantee facility).

Other than the above, the directors are not aware of any material contingent liabilities, contingent assets or capital commitments as at 30 June 2020.

9. Cash

	2020	2019
	\$'000	\$'000
Cash at bank	6,034	3,612
Deposits at call	38,035	24,694
Term deposits	70,000	82,000
	114,069	110,306

The weighted average interest rate for cash and deposits at call as at 30 June 2020 is 0.2% p.a. (2019: 1.4% p.a.). The weighted average interest rate of term deposits as at 30 June 2020 is 1.4% (2019: 2.1%) with an average term of 4.5 months (2019: 4.5 months).

10. Receivables

	2020	2019
	\$'000	\$'000
a. Receivables – current		
Dividends receivable	10,523	14,822
Interest receivable	258	344
Sundry debtors	157	21
	10,938	15,187

b. Terms and conditions

Sundry debtors are due within 30 days and no interest is charged.

Capital Management

11. Share capital

Milton may offer shareholders the opportunity to increase their holdings by participation in the Share Purchase Plan and in the Dividend Reinvestment Plan. Milton may also increase its capital through renounceable rights issues and acquisition of investment companies with the consideration being the issue of Milton shares.

All capital consists of fully paid ordinary shares which are listed on the ASX and carry one vote per share and equal rights to receive dividends.

Movement in share capital	2020	2020	2019	2019
	No. of Shares	\$'000	No. of Shares	\$'000
Opening balance	668,963,092	1,633,055	658,170,815	1,582,431
Acquisition of unlisted investment companies	–	–	8,444,554	40,060
Dividend Reinvestment Plan ⁽¹⁾	2,363,305	11,288	2,347,723	10,627
Less: Transaction costs (net of tax)	–	(22)	–	(63)
Closing balance	671,326,397	1,644,321	668,963,092	1,633,055

1 Milton's Dividend Reinvestment Plan (DRP) offers shareholders the option to reinvest all or part of their dividend in new ordinary shares. In the 2020 financial year, Milton issued 1,288,011 new shares in September 2019 and 1,075,294 new shares in March 2020 under the DRP (2019:1,188,729 issued in September 2018 and 1,158,994 issued in March 2019).

12. Reserves

Nature and purpose of reserves

Changes in fair value of investments are presented in other comprehensive income through the asset revaluation reserve as referred to in Note 7. Upon disposal of long-term investments, the realised gain or loss, net of any tax expense or benefit, is transferred from the asset revaluation reserve and recorded in the capital profits reserve.

	2020	2019
	\$'000	\$'000
a. Asset revaluation reserve		
Opening balance	969,156	898,111
Revaluation of investments net of provision for tax	(300,007)	85,542
Net realised gains	(8,115)	(14,497)
	661,034	969,156
b. Capital profits reserve		
Opening balance	66,148	51,651
Net realised gains	8,115	14,497
	74,263	66,148

Notes to the Consolidated Financial Statements

continued

Risk

This section of the notes discusses Milton's exposure to various risks and shows how these could affect Milton's financial position and performance.

13. Critical accounting estimates, judgements and assumptions

Judgements, estimates and assumptions are required to prepare financial statements.

Apart from the items mentioned below, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- i) Deferred tax liabilities from unrealised capital gains are offset against deferred tax assets from realised capital losses as disclosed in Note 2e.
- ii) Classification of joint arrangements as joint ventures as disclosed in Note 8.

14. Management of financial risk

The risks associated with the financial instruments, such as investments and cash, include credit, market and liquidity risks which could affect Milton's future financial performance.

The Board has approved policies and procedures to manage these risks. The effectiveness of these policies and procedures is continually reviewed by management and annually by the Audit & Risk Committee.

a. Credit risk exposures

Milton's principal credit risk exposures arise from the investment in liquid assets, such as cash, bank term deposits and income receivable.

The risk that financial loss will occur because a counterparty to a financial instrument fails to discharge an obligation is known as credit risk. The credit risk on Milton's financial assets, excluding investments, is the carrying amount of those assets.

Individual bank limits have been approved by the board for the investment of cash.

Income receivable comprises accrued interest and dividends and distributions which were brought to account on the date the shares or units traded ex-dividend.

There are no financial instruments overdue.

All financial assets and their recoverability are continuously monitored by management and reviewed by the board on a quarterly basis.

b. Market risk

Market risk is the risk that changes in market prices will affect the fair value of the financial instrument. The fair value of the quoted investments is determined by the unadjusted last sale price quoted on the Australian Securities Exchange at the measurement date.

Milton is exposed to market risk through the movement of the security prices of the companies and trusts in which it is invested.

The market value of individual companies fluctuates daily and the fair value of the portfolio changes continuously, with this change in the fair value recognised through the asset revaluation reserve.

Investments represent 94% (2019: 95%) of total assets. A 5% movement in the market value of investments in each of the companies and trusts within the portfolio would result in a 4.7% (2019: 4.8%) movement in the net assets before provision for tax on unrealised capital gains at 30 June 2020. The net asset backing before provision for tax on unrealised capital gains would move by 20 cents per share at 30 June 2020 (2019: 23 cents at 30 June 2019).

Milton's management continuously monitors the performance of the companies within its portfolio and makes portfolio recommendations which are considered by the Investment Committee. The Milton board reviews the portfolio on a quarterly basis.

Milton is not directly exposed to foreign currency risk as all its investments are quoted in Australian dollars.

The fair value of Milton's other financial instruments are unlikely to be materially affected by a movement in interest rates as they generally have short dated maturities and variable interest rates.

c. Liquidity risk

Liquidity risk is the risk that Milton is unable to meet its financial obligations as they fall due.

Milton manages liquidity risk by monitoring forecast and actual cashflows. All accounts payable are due and payable within 12 months.

15. Capital risk management

The parent entity invests its equity in a diversified portfolio of assets with the objective of generating a growing income stream for distribution to shareholders in the form of fully franked dividends.

The capital base is managed to ensure there are funds available for investment as opportunities arise. Capital may be increased through the issue of shares under the Share Purchase Plan and the Dividend Reinvestment Plan. Shares may also be issued through renounceable rights issues and as consideration for acquisition of other investment companies.

Notes to the Consolidated Financial Statements

continued

Group Structure

16. Subsidiaries

Investments in subsidiaries are carried at net asset value which approximates fair value of the controlled entities.

Income from dividends is brought to account when they are declared.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

a. Basis of Consolidation

The consolidated financial statements include the financial statements of Milton being the parent entity and its subsidiaries. The balances and effects of transactions between subsidiaries included in the consolidated financial statements have been eliminated in full.

Where entities have come under the control of the parent entity during the year, their operating results have been included in the group from the date control was obtained. Entities cease to be consolidated from the date on which control is transferred out of the group and the consolidated financial statements include the result for the part of the reporting period during which the parent entity had control.

b. Milton Corporation Limited's subsidiaries

The following subsidiaries have been included in the consolidated accounts. The parent entity and all subsidiaries are incorporated in Australia:

Percentage of Interest held	2020 %	2019 %
85 Spring Street Properties Pty Ltd	100	100
Chatham Investment Co. Pty Limited	100	100
Incorporated Nominees Pty Limited	100	100
Milhunt Pty Limited	100	100
ACN007531240 Pty Limited	100	100
Kembar Pty Limited	—	100

c. Acquisition and disposal of subsidiaries

No acquisitions during the year. Unlisted investment company Kembar Pty Limited acquired in February 2019 was placed into voluntary liquidation during the year and deregistered in April 2020.

(2019: Milton acquired 100% of the shares of two unlisted investment companies for a total consideration of 8,444,554 new Milton shares with a fair value of \$40,059,629).

d. Business Combinations

The acquisition method of accounting has been used to account for all business combinations. The business combinations have been accounted from the date Milton attained control of the subsidiaries. The considerations transferred for the acquisitions comprise the fair values of the identifiable assets transferred and the liabilities assumed.

Costs related to the acquisitions, other than those associated with the issue of equity securities, are expensed to the consolidated income statement as incurred.

Other Information

17. Related party transactions

	2020	2019
	\$'000	\$'000
a. Directors and Key Management Personnel compensation		
Short-term benefits	1,414	1,436
Other long-term benefits	4	227
Post-employment benefits	101	118
Share-based payments	107	88
	1,626	1,869

Information regarding individual directors' and executives' compensation and equity instruments disclosures, as permitted by Corporations Regulations 2M.3.03, are provided in the Remuneration Report section of the Directors' Report on pages 12 to 18.

b. Shareholdings of non-executive directors and their related parties – number of shares held

Non-executive directors and their related parties held 5.6% (2019: 5.6%) of the voting power of Milton as at year end. All shares acquired by non-executive directors and their related parties during the year were purchased on an arm's length basis. Movements in the number of shares held are given below. There were no amounts outstanding from or due to any non-executive director or their related parties as at 30 June 2020.

	2020	2019
	No of shares	No of shares
Number of shares at beginning of the year	37,397,579	40,387,579
Acquired during the year	444,516	10,000
Disposed of during the year	–	(3,000,000)
Number of shares held at end of year	37,842,095	37,397,579

c. Loans to key management personnel and their related parties

Details regarding loans outstanding at the reporting date to key management are as shown below. No loans were granted to related parties of any key management personnel.

	2020	2019
	\$	\$
Balance at beginning of the year	1,567,499	3,119,563
Loans advanced	602,009	1,049,175
Loans repaid	(73,810)	(2,601,239)
Balance at end of the year	2,095,698	1,567,499
Notional interest	107,196	87,961

Notes to the Consolidated Financial Statements

continued

Other Information

17. Related party transactions (continued)

Notional interest is based on the applicable FBT benchmark interest rate for the year which averaged 5.20% (2019: 5.24%).

The loans are advanced to key management personnel in accordance with the Senior Staff Share Plan (SSSP) as disclosed in Note 18b. Loans to individual key management personnel are disclosed in the remuneration report on page 17.

d. Other related party transactions

All directors have entered into the Deed of Indemnity, Insurance and Access that was approved at the Annual General Meeting held on 10 October 2000. Milton has a Remuneration and Retirement Benefits Deed with Mr R.D. Millner and Dr I.A. Pollard. During the 30 June 2004 year, Milton and the directors varied the Remuneration and Retirement Benefits Deed, whereby the maximum retirement benefit payable to a non-executive director on retirement will be the provision for the director as at 30 June 2003. Apart from the details disclosed in this note no director has entered into a material contract with the parent entity or Milton since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at the end of the year.

e. Loans to and from subsidiaries

Loans have been made between the parent entity and wholly owned subsidiaries for capital transactions. The loans between the parent and its subsidiaries have no fixed date of repayment and are non-interest bearing.

	2020	2019
	\$	\$
Amounts owed (to) by subsidiaries at beginning of the year	(12,959,503)	27,034,039
Loans advanced from subsidiaries	(967,649)	(43,002,055)
Loans advanced to subsidiaries	15,666,212	3,008,513
Amounts owed by (to) subsidiaries at end of the year	1,739,060	(12,959,503)

18. Share based payments

Under the Employee Share Plan, shares are acquired for employees as part of their remuneration and the cost of the shares is recorded under employment costs.

Under the Senior Staff Share Plan, shares are acquired for eligible employees as part of their remuneration and held on their behalf by the trustee of the Plan. The purchase of the Plan Shares is financed by a loan from Milton.

a. Employee Share Plan

The Employee Share Plan ("ESP") is available to all eligible employees to acquire ordinary shares in Milton in lieu of a cash bonus of up to \$1,000 per year as part of the employee's remuneration. The transaction and administration costs of acquiring the shares and administering the plan are paid by Milton.

During the year 414 shares (2019:422 shares) were acquired by Milton on behalf of eligible employees under the ESP at a cost of \$2,088 (2019: \$2,084) with a total market value at 30 June 2020 of \$1,693. Any shares acquired cannot be disposed of or transferred until the earlier of 3 years from the date of issue or acquisition or on the date that the employee's employment ceases with Milton.

b. Senior Staff Share Plan

The Senior Staff Share Plan ("SSSP") was approved by shareholders at Milton's Annual General Meeting on 9 October 2001. Eligible employees are given the opportunity to apply for Plan Shares in Milton which are subscribed for or acquired and held on their behalf by the trustee of the plan. The purchase of these Plan Shares is financed by an interest-free limited recourse loan from Milton with recourse only to Plan Shares. The loan will be repaid partially from any dividends received. Milton administers the SSSP and meets the transactional and administration costs.

During the year 210,000 shares (2019: 310,000 shares) were acquired by the trustee of the plan on behalf of eligible employees under the SSSP at a cost of \$1,011,375 (2019: \$1,445,530). The shares acquired by the trustee during the year had a market value of \$858,900 at \$4.09 per share as at 30 June 2020. The SSSP loan receivable balance from eligible employees as at 30 June 2020 was \$4,117,515 (2019: \$3,430,474).

Any shares acquired are held in the name of the trustee and classified as Restricted Shares which cannot become Unrestricted Shares until the earlier of 3 years from the date of issue to the trustee or acquisition by the trustee or on the date that the employee's employment ceases with Milton. The trustee may transfer Unrestricted Shares to the participant provided that any outstanding loan has been repaid in full.

19. Auditors Remuneration

	2020	2019
	\$'000	\$'000
Auditors of the company		
Audit and review services	119	115
Related practice of the auditor		
Agreed upon procedures	–	43
Other services	7	9
	126	167

Notes to the Consolidated Financial Statements

continued

Other Information

20. Parent entity disclosures

In accordance with the *Corporations Amendment (Corporate Reporting Reform) Act 2010* and the *Corporations Act 2001* the following summarised parent entity information is set out below.

As at 30 June 2020, and throughout, the financial year ended 30 June 2020 the parent entity was Milton Corporation Limited.

	2020	2019
	\$'000	\$'000
Profit of the parent entity		
Profit for the year	116,252	146,560
Total comprehensive income for the year	(183,050)	232,741
Financial position of the parent entity as at 30 June		
Current assets	125,394	126,015
Non-current assets	2,743,474	3,183,538
Total assets	2,868,868	3,309,553
Current liabilities	(2,580)	(1,251)
Non-current liabilities	(292,521)	(432,856)
Total liabilities	(295,101)	(434,107)
Net assets	2,573,767	2,875,446
Total equity of the parent entity comprising		
Issued capital	1,644,321	1,633,055
Capital profits reserves	82,848	74,733
Asset revaluation reserve	716,713	1,024,131
Retained profits	129,885	143,527
Total equity attributable to shareholders of the parent entity	2,573,767	2,875,446

21. Summary of other accounting policies

a. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian accounting interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and complies with International Financial Reporting Standards (IFRS).

Accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented, unless otherwise stated. The financial statements include the consolidated entity ("Milton") consisting of Milton Corporation Limited and its subsidiaries. Milton is a 'for-profit' entity.

These financial statements have been prepared on an accruals basis and are based on the historical cost basis except as modified by the revaluation of certain financial assets and liabilities measured at fair value.

New and amended standards adopted:

AASB 16 *Leases* is applicable to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 *Leases*. For lessees it will eliminate the classifications of operating leases and finance leases. This does not have a material impact on the financial statements of Milton.

There are no other new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

New and amended standards not adopted:

New standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 Jan 2020 have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of Milton.

b. Rounding of amounts

Unless otherwise stated under the option available in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

c. Operating segments

The consolidated entity operates in Australia and engages in investment as its principal activity. As such Milton considers the business to have a single operating segment.

Notes to the Consolidated Financial Statements

continued

Other Information

21. Summary of other accounting policies (continued)

d. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Milton consolidated group, and that the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred.

The depreciable amount of all fixed assets including building, but excluding freehold land, is depreciated commencing from the time the asset is held ready for use. Depreciating is calculated on straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Building	40 years
Plant and equipment	2–15 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

Gains and losses on disposals determined by comparing proceeds with carrying amounts are included in the income statement.

22. Cash flow information

	2020	2019
	\$'000	\$'000
a. Reconciliation of net profit to net cash provided by operating activities		
Net profit	116,957	147,652
Share of net profits of joint ventures – equity accounted	(888)	(1,504)
Distributions received from joint venture entities	967	2,500
Acquisition related costs of subsidiaries	–	124
Depreciation of non-current assets	37	35
Decrease (Increase) in receivables	3,522	10,176
(Decrease) increase in payables and provisions	(274)	(287)
Increase in income taxes payable	753	405
Increase (decrease) in provisions	22	(172)
Net cash provided by operating activities	121,096	158,929

b. Non-cash financing and investing activities

No material non-cash investing activities were carried out during the year ended 30 June 2020 (2019: Milton acquired two unlisted investment companies through the issue of 8,444,554 new Milton shares with a total fair value of \$40,059,629).

23. Contingent liabilities

Apart from the contingent liability relating to the interest servicing guarantee facility of \$10 million provided on behalf of LWP Huntlee Syndicate No.2 joint venture as disclosed in Note 8c, the directors are not aware of any other material contingent liabilities.

24. Events subsequent to reporting date

Since the end of the financial year, the directors declared a fully franked ordinary final dividend of 8.5 cents per share payable on 2 September 2020.

This financial report was authorised for issue in accordance with a resolution of directors on 6 August 2020. The directors have the power to amend and reissue the financial statements.

Notes to the Consolidated Financial Statements

continued

Holdings

25. Holdings at Fair Value through Other Comprehensive Income at 30 June 2020

The following holdings are valued at fair value through Other Comprehensive Income.

Investments in equity instruments	2020		2019	
	Holding Shares	Market value \$'000	Holding Shares	Market value \$'000
Adelaide Brighton Ltd.	–	–	2,978,554	12,033
AGL Energy Ltd.	3,570,141	60,871	3,570,141	71,439
ALS Ltd.	6,079,431	39,881	6,079,431	44,623
Altium Ltd.	318,500	10,345	178,500	6,105
Amcor PLC	2,433,512	35,237	1,566,512	25,362
Ampol Ltd.	394,000	11,552	394,000	9,752
A.P. Eagers Ltd.	6,795,986	45,873	5,833,107	57,164
APA Group	2,077,766	23,126	2,077,766	22,440
ARB Corporation Ltd.	911,065	16,354	911,065	16,581
Argo Investments Ltd.	1,880,841	13,523	1,880,841	15,272
ASX Ltd.	548,965	46,871	548,965	45,218
AUB Group Ltd.	1,292,991	19,007	1,292,991	13,499
Australia & New Zealand Banking Group Ltd.	–	–	3,452,751	97,402
Australian Foundation Investment Company Ltd.	470,513	2,865	922,398	5,765
Auswide Bank Ltd.	–	–	228,557	1,172
Automotive Holdings Group Ltd.	–	–	3,466,366	9,706
Bank of Queensland Ltd.	–	–	7,306,078	69,627
Bendigo & Adelaide Bank Ltd.	–	–	5,709,708	66,118
BHP Group Ltd.	4,854,921	173,903	4,098,921	168,712
BKI Investment Company Ltd.	1,223,866	1,695	1,223,866	1,921
Blackmores Ltd.	–	–	368,664	33,147
Boral Ltd.	–	–	2,089,293	10,697
Brambles Ltd.	1,431,966	15,565	1,431,966	18,444
Brickworks Ltd.	3,234,567	51,203	3,234,567	52,691
Carlton Investments Ltd.	356,778	8,195	356,778	11,274
Carsales.com Ltd.	1,197,000	21,235	1,042,000	14,098
Charter Hall Group	2,556,000	24,768	2,126,000	23,025
Charter Hall Long WALE REIT	5,082,095	21,751	3,364,212	16,855
CIMIC Group Ltd.	845,739	20,399	791,239	35,424
Cleanaway Waste Management	11,250,000	24,750	5,500,000	12,815
Coca-Cola Amatil Ltd.	1,061,584	9,193	1,061,584	10,849
Cochlear Ltd.	33,800	6,386	33,800	6,991
Coles Group Ltd.	2,877,375	49,405	2,877,375	38,413
Commonwealth Bank of Australia	3,140,470	218,011	3,140,470	259,968
Computershare Ltd.	–	–	23,000	373
CSL Ltd.	601,198	172,544	601,198	129,258
Diversified United Investment Ltd.	130,607	552	130,607	569
Dulux Group Ltd.	–	–	1,655,184	15,426
EQT Holdings Ltd.	593,954	14,700	500,697	14,821
Event Hospitality & Entertainment Ltd.	1,010,921	8,502	1,010,921	12,637
Finbar Group Ltd.	3,642,464	2,550	3,642,464	3,060
Flight Centre Travel Group Ltd.	–	–	80,300	3,336

	2020		2019	
	Holding Shares	Market value \$'000	Holding Shares	Market value \$'000
Investments in equity instruments				
Goodman Group	1,690,376	25,102	1,475,376	22,175
Gresham Private Equity Co-Investment Fund	–	–	100,000	23
Insurance Australia Group Ltd.	6,026,948	34,775	5,896,948	48,709
Incitec Pivot Ltd.	–	–	1,663,689	5,673
InvoCare Ltd.	2,050,914	21,494	1,950,914	31,195
IOOF Holdings Ltd.	2,575,014	12,669	2,009,086	10,387
Janus Henderson Group PLC	–	–	229,500	6,952
Johns Lyng Group Ltd.	1,950,000	4,583	–	–
Lendlease Group	972,539	12,030	972,539	12,643
Lindsay Australia Ltd.	13,341,599	4,670	13,341,599	4,603
Link Administration Holdings Ltd.	–	–	27,907	140
Macquarie Group Ltd.	1,625,990	192,842	744,490	93,352
McMillan Shakespeare Ltd.	803,532	7,296	662,538	8,090
Magellan Financial Group Ltd.	25,000	1,450	–	–
National Australia Bank Ltd.	4,868,831	88,710	4,868,831	130,095
New Hope Corporation Ltd.	–	–	1,290,107	3,496
Orica Ltd.	–	–	188,987	3,831
Origin Energy Ltd.	1,580,301	9,229	190,301	1,391
Pendal Group Ltd.	2,116,643	12,636	1,546,643	11,058
Perpetual Ltd.	1,231,982	36,553	1,231,982	52,039
Premier Investments Ltd.	590,321	10,183	590,321	8,955
Pro Medicus Limited	75,000	1,985	–	–
QBE Insurance Group Ltd.	789,375	6,994	1,949,375	23,061
Qube Holdings Ltd.	7,538,951	21,938	6,113,243	18,585
Ramsay Health Care Ltd.	225,283	14,986	225,283	16,274
REA Group Ltd.	92,309	9,958	8,769	842
Reece Ltd.	1,231,657	11,319	1,167,950	11,399
Regis Healthcare Ltd.	–	–	1,856,076	4,881
Rio Tinto Ltd.	669,120	65,547	669,120	69,428
Scentre Group	5,589,474	12,129	5,079,474	19,505
Schaffer Corporation Ltd.	68,999	911	68,999	941
Sims Ltd.	452,368	3,587	452,368	4,913
Sonic Healthcare Ltd.	940,707	28,626	710,707	19,260
Stockland Group	3,844,940	12,727	3,844,940	16,033
Suncorp Group Ltd.	3,218,120	29,703	3,314,232	44,643
Sydney Airport	4,874,629	27,639	3,184,629	25,605
Tank Stream Ventures	50,341	375	50,341	363
Technology One Ltd.	1,855,000	16,305	1,515,000	11,938
Telstra Corporation Ltd.	15,236,961	47,692	15,236,961	58,662
TPG Telecom Ltd.	3,148,725	28,024	3,148,725	20,278
Transurban Group Ltd.	5,815,153	82,168	4,592,153	67,688
Treasury Wine Estates Ltd.	1,206,363	12,643	1,206,363	17,999
Tuas Limited	1,574,363	1,063	–	–
Washington H. Soul Pattinson & Company Ltd.	9,174,640	179,181	9,174,640	201,750
Wesfarmers Ltd.	2,877,375	128,993	2,877,375	104,046
Westpac Banking Corporation	9,985,458	179,239	10,545,458	299,069
Whitefield Ltd.	–	–	149,373	726
Woodside Petroleum Ltd.	1,288,838	27,903	1,288,838	46,862
Woolworths Group Ltd.	2,936,973	109,490	2,936,973	97,596
		2,706,159		3,141,236

Directors' Declaration

for the year ended 30 June 2020

1. In the opinion of the directors of Milton Corporation Limited:
 - (a) the consolidated financial statements and notes that are set out on pages 21 to 47 and the Remuneration report, that is set out on pages 12 to 18 in the Directors' report are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
 - (ii) complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*;
 - (iii) complying with International Accounting Standards as issued by the International Accounting Standards Board as described in Note 21a to the financial statements; and
 - (b) there are reasonable grounds to believe that Milton Corporation Limited will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2020.

Signed in accordance with a resolution of the directors.



R. D. MILLNER
Chairman

Sydney, 6 August 2020

Independent Auditor's Report



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Sydney NSW 2000

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Independent Auditor's Report to the Members of Milton Corporation Limited ABN 18 000 041 421

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Milton Corporation Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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Independent Auditor's Report

continued

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<p><i>Existence and Valuation of investments in equity instruments and related movement in reserves</i> <i>Refer to Note 2(d): Deferred tax liabilities, Note 7: Investments in equity instruments and Note 12: Reserves</i></p>	
<p>At 30 June 2020, the Group's statement of financial position includes investments in equity instruments of \$2,706,159,000, an asset revaluation reserve of \$661,034,000 and a deferred tax liability recognised in relation thereto of \$289,725,000.</p> <p>Listed investments are valued continuously at fair value, which is determined by the unadjusted last-sale price quoted on the Australian Securities Exchange. Changes in fair value of equity instruments are recognised in other comprehensive income through the asset revaluation reserve after deducting a provision for the potential deferred capital gains tax liability, as investments are long term holdings of equity instruments.</p> <p>Given the significance of the balances, the key audit matter for us was whether the Group has accurately recorded the above balances and the movement in the past 12 months and has ownership of the investments at year end.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ■ Documenting our understanding of management's processes and relevant controls; ■ Tested relevant controls relating to the portfolio revaluation are performed regularly by management; ■ Confirming the recording and ownership of a sample of investments and transactions during the year by agreeing the SRN/HIN numbers to share registry holding statements online and to the books and records of the Group; ■ Analysing and testing the movement in investments; ■ Testing management's calculation of the revaluation of investments and the corresponding deferred income tax effect; and ■ Assessed the adequacy of disclosures in the financial report.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report

continued

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 18 of the Directors' report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Milton Corporation Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



S.S. Wallace

Partner

6 August 2020



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Corporate Directory

Milton Corporation Limited

Directors

R. D. MILLNER

Chairman

G. L. CRAMPTON

K. J. ELEY

J. E. JARVINEN

I. A. POLLARD

Management

B. J. O'DEA

CEO and Managing Director

D.N. SENEVIRATNE

CFO and Secretary

Registered Office & Principal Place of Business

Level 4, 50 Pitt Street
Sydney NSW 2000

Phone: (02) 8006 5357

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Email: general@milton.com.au

Website: www.milton.com.au

Auditors

Pitcher Partners

Level 16, Tower 2
201 Sussex Street
Sydney NSW 2000

Website: www.pitcher.com.au

Share Registry

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235

Phone: (02) 8280 7111

Fax: (02) 9261 8489

Toll free: 1800 641 024

Email: milton@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

ASX Information

ASX Code: MLT

Top 20 shareholders as at 30 June 2020

Name	Shares Held	%
Washington H Soul Pattinson & Company Limited	22,216,178	3.31
Higlett Pty Ltd	21,000,000	3.13
Argo Investments Limited	15,969,198	2.38
HSBC Custody Nominees (Australia) Limited	15,922,175	2.37
Australian Foundation Investment Company Limited	9,775,918	1.46
Bortre Pty Limited	6,079,504	0.91
Danwer Investments Pty Ltd	6,079,504	0.91
Griffinna Pty Ltd	5,730,383	0.85
J S Millner Holdings Pty Ltd	3,843,514	0.57
Macdawley Proprietary Limited	3,479,615	0.52
JBF Holdings Pty Ltd	3,440,466	0.51
Hexham Holdings Pty Limited	3,280,079	0.49
Millane Pty Limited	3,165,269	0.47
T N Phillips Investments Pty Ltd	3,087,381	0.46
Jamama Nominees Pty Limited	3,031,214	0.45
A V L Investments Proprietary Limited	2,979,080	0.44
John E Gill Trading Pty Ltd	2,814,074	0.42
Chickenfeed Pty Ltd	2,809,614	0.42
David Burns Pty Limited	2,724,955	0.41
Isomet Pty Ltd	2,683,615	0.40
Djaldar Pty Ltd	2,545,000	0.38

On 30 June 2020, there were 29,514 holders of ordinary shares in the capital of Milton. Holders of ordinary shares are entitled to one vote per share.

Number of shares held	Number of shareholders
1 – 1,000	4,827
1,001 – 5,000	8,456
5,001 – 10,000	5,716
10,001 – 100,000	9,821
100,001 and over	694
The number of holders of less than a marketable parcel of \$500 (122 shares)	862

Other Information

Milton is taxed as a public company. There is no current on-market buy-back.

The total number of transactions in securities undertaken by Milton was 266 and the total brokerage paid or accrued was \$796,603.

Share Issues History

Share Purchase Plan history

Date	Issue price per share
	\$
10.11.1999	8.75
13.11.2000	8.86
13.11.2001	10.79
08.11.2002	11.70
31.10.2003	13.21
29.10.2004	14.10
21.10.2005	17.11
16.10.2006	19.60
19.10.2007	22.48
03.10.2008	17.85
09.10.2009	16.08
30.09.2013	19.12
22.10.2013	5 for 1 share split
01.10.2014	4.45
02.10.2015	4.18

Dividend Reinvestment Plans

Date	Shares issued	Price
		\$
04.03.2014	187,207	4.27
03.09.2014	698,365	4.55
03.03.2015	712,273	4.56
03.09.2015	998,879	4.39
03.03.2016	921,511	4.19
02.09.2016	1,086,782	4.28
02.03.2017	953,908	4.34
05.09.2017	1,113,757	4.44
01.03.2018	978,655	4.59
04.09.2018	1,188,729	4.66
05.03.2019	1,158,994	4.39
03.09.2019	1,288,011	4.64
05.03.2020	1,075,294	4.94

Acquisition of listed investment companies

Date	Company	Shares issued
31.12.2001	Cambooya Investments Limited	8,273,505
16.12.2010	Choiseul Investments Limited	23,803,854

Acquisition of unlisted companies

Date	Shares issued
21.06.2002	2,287,200
31.12.2002	1,739,112
11.03.2004	2,742,777
01.04.2004	496,809
17.08.2006	1,000,322
23.08.2006	1,476,254
28.08.2006	382,404
21.09.2006	278,103
10.11.2006	1,888,353
23.03.2007	1,895,976
14.05.2007	2,424,582
20.06.2007	252,477
24.09.2007	1,223,252
19.02.2009	3,555,958
26.02.2010	1,016,370
26.02.2010	3,116,341
20.08.2010	2,446,521
21.02.2013	521,464
24.02.2014	3,280,382
22.08.2017	4,114,776
17.08.2018	5,575,148
28.02.2019	2,869,406

Share Split

Date	Ratio	Notes
22.10.2013	Five shares for one	The number of shares issued prior to this date have not been adjusted for the share split.

A full list of issues to shareholders since commencement of Capital Gains Tax in September 1985 can be found on the company's website at www.milton.com.au



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