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These documents comprise the preliminary final report given to ASX under listing rule 4.3A

Djerriwarrh Investments Limited ABN 38 006 862 693

Appendix 4E Statement  
for the Full-Year ending  
30 June 2018



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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the year ended 30 June 2018 with the previous corresponding period being the year ended 30 June 2017.

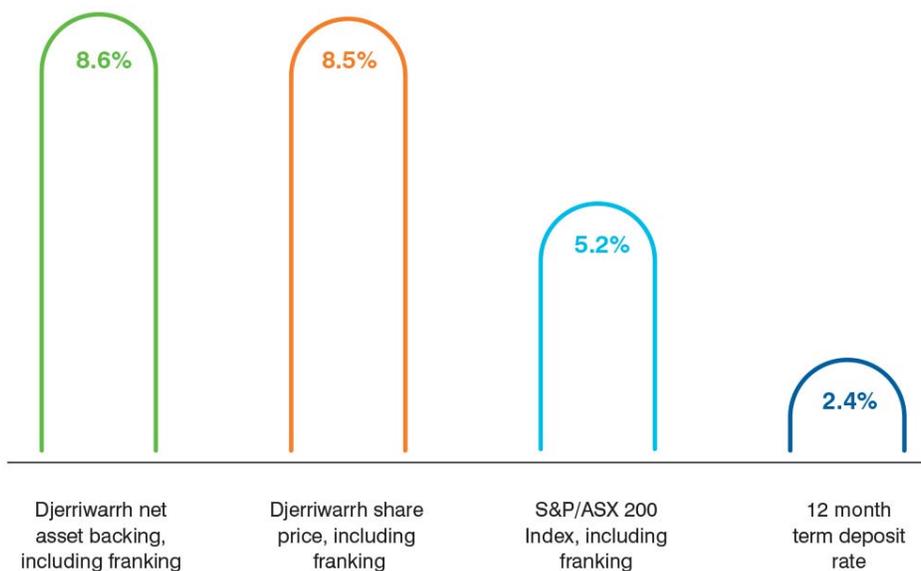
This report is based on audited financial statements. A copy of the audit report can be found on page 36.

### Results for announcement to the market

- The final dividend is 10 cents per share fully franked, the same as last year. The dividend will be paid on 27 August 2018 to ordinary shareholders on the register on 8 August 2018. Shares are expected to trade ex-dividend from 7 August 2018.
- 5 cents of the final dividend is sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre-tax attributable gain on this portion of the dividend, known as an “LIC capital gain”, is therefore 7.14 cents. This enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements. There is no conduit foreign income component of the dividend.
- The Company’s Dividend Reinvestment Plan (“DRP”) is in operation for the final dividend. Under the DRP shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on a **2.5% discount** to the average selling price of shares traded on the ASX and Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis. The last day for the receipt of an election notice for participation in the plan is 9 August 2018.
- Net Operating Result after tax was \$36.0 million, 6.4% up from the previous corresponding period.
- Net Operating Result per share was 16.3 cents per share, up from 15.5 cents last year.
- Net Profit attributable to members was \$31.4 million, 6.6% down from \$33.7 million in the previous corresponding period.
- Revenue from operating activities was \$34.5 million, 11.4% up from the previous corresponding period.
- The interim dividend for the 2018 financial year was 10 cents per share (the same as last year), fully franked, and it was paid to shareholders on 21 February 2018.
- Net tangible assets per share before any provision for deferred tax on the unrealised taxable gains on the long-term investment portfolio as at 30 June 2018 were \$3.31 (before allowing for the final dividend), up from \$3.24 (before allowing for the final dividend) at the end of the previous corresponding period.
- The 2018 AGM will be held at Zinc, Federation Square, Melbourne, at 10.00 AM on Thursday 11 October 2018.

## Full Year Report to 30 June 2018

- Djerriwarrh seeks to provide an enhanced level of fully franked income in part by using option strategies. This will typically reshape the profile of returns producing more immediate income at the expense of potential capital growth. In falling markets income from options should offset some of the loss from declining share prices.
- Full Year Profit was \$31.4 million, down 6.6% from \$33.7 million in the corresponding period last year. Key components of the result were:
  - an increase in dividends received, following adjustments to the portfolio as well as a large uplift in income from material and energy companies;
  - improved income from option activity;
  - an increase in net unrealised losses from open option positions. These losses can arise when prices on the underlying stocks increase in value, but often reduce as options approach expiry; and
  - a reduction in contribution of the Trading Portfolio.
- Net Operating Result (which excludes the impact of open option positions) of \$36.0 million, up 6.4% from \$33.8 million in the prior corresponding period.
- Final dividend is 10 cents per share fully franked, bringing total dividends for the year to 20 cents per share, in line with last year.
- Portfolio return for the year including franking was 11.7%. Including franking, the S&P/ASX 200 Accumulation Index was up 14.6%.
- At 30 June 2018, the yield on the portfolio (net asset backing) was 8.6%, including franking, whereas the yield on the S&P/ASX 200, including franking, was 5.2%.



Note: Djerriwarrh yield based on 20 cent full year dividend. Assumes an investor can take full advantage of the franking credits. S&P/ASX 200 Index 80 per cent franked.

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## Market Comments

The Australian equity market produced a positive return of 13% over the year to 30 June 2018, driven largely by the resources sector, which was up 41% over the period as material and energy stocks performed strongly on the back of relatively robust global growth as well as a tightening in supply across key commodities. In addition, there were strong performances from CSL and Macquarie Group, which benefited from their unique exposure to global markets.

In contrast, other key sectors that have produced a large proportion of market dividends, struggled to achieve growth. In particular, returns were hindered by the performance of Telstra, as it deals with the commercial impacts of the NBN and the competitive environment in mobile, and the banking sector, which is facing more subdued operating conditions as well as the implications arising from the Royal Commission.

## Portfolio Returns

Djerriwarrh's portfolio return including franking for the twelve months to 30 June 2018 was 11.7%, whereas the return from cash, as measured by the Bank Bill Index, was 1.8% and the S&P/ASX 200 Accumulation Index return including franking was 14.6% (franking added 2.9% to Djerriwarrh's return and 1.6% to the Index).

Djerriwarrh typically has call options written over 30% to 50% of the portfolio (average coverage for the year was 43%, and was 39% at the end of June following the exercise of some call options). In a relatively strong market, the portfolio return normally would be below the S&P/ASX 200 Accumulation Index as call option positions can limit the amount of capital growth into the market strength, particularly as it becomes uneconomic to buy back in-the-money positions. In addition, a large part of the return in the resources sector came from the small and mid cap resources, which were up 49.0% and 42.3% respectively. These segments of the market are not typically within Djerriwarrh's investment universe given the absence of fully franked dividends and an options market.

The more significant contributors to Djerriwarrh's portfolio performance over the year were BHP, CSL, Macquarie Group, Wesfarmers and Rio Tinto.

## Portfolio Adjustments

There were several factors influencing activity in the portfolio over the year. A number of large companies are facing growth headwinds, which means a more subdued outlook for their dividends. In this context, Djerriwarrh repositioned the portfolio by adding to holdings with a better outlook for dividend growth whilst reducing some positions where growth is more challenged. In this context, purchases included Macquarie Group and Sydney Airport, whilst sales arose across several holdings, including Telstra, QBE Insurance and Healthscope, and the complete disposal of Incitec Pivot. In addition, in the rising market where a number of holdings with option positions rose strongly, purchases were made in advance of the likely exercise of these call options. This included companies such as BHP, CSL, Macquarie Group and Woolworths.

Several new companies were added to the portfolio during the year, including Janus Henderson Group, Atlas Arteria, Reliance Worldwide and Ansell.

## Profit and Dividend

Profit for the year was \$31.4 million, down 6.6% from \$33.7 million in the corresponding period last year. The major reason for the decline was an increase in unrealised losses from call option positions (these losses can arise when prices on the underlying stocks increase in value, but often reduce as options approach expiry). There was also a reduction in contribution of the Trading Portfolio compared with the prior corresponding period, as the gains made last year were not repeated this year. In contrast, there was an increase in dividends received, following adjustments to the portfolio, as well as a large uplift in income from material and energy companies.

Increased volatility during various stages of the second half, as well as the maintenance of option coverage towards the higher end of the normal range, also saw an improvement in option income. This was despite a number of call option positions being bought back and moved into the new financial year at higher exercise prices to capture more of the potential capital upside of these holdings. This had the effect of shifting some option premium income into the new financial year. In this context, the uplift in option income was very satisfactory.

The Net Operating Result for the year was \$36.0 million, up 6.4% from \$33.8 million in the prior corresponding period. In the opinion of the Directors, this is a better measure of Djerriwarrh's performance in deriving ongoing investment, trading and options income from the Company's portfolios as it excludes the valuation impact of net unrealised losses on open option positions at year end.

Djerriwarrh's final dividend has been maintained at 10 cents per share fully franked, bringing total dividends for the year to 20 cents per share, in line with last year. The Dividend Reinvestment Plan is in operation with a 2.5% discount.

### **Moving Forward**

With the Australian market trading at ten-year highs and with valuations across many companies also high, Djerriwarrh will continue to keep option coverage toward the upper end of the typical range of 30% to 50% of the portfolio.

In particular, for those holdings that provide good dividend income but are more challenged for growth, such as the banks, option coverage is likely to be higher than the average. In contrast where there is the case for higher earnings growth and growing dividends the option coverage is likely to be lower.

The other important factor that Djerriwarrh considers in its option writing activities is the level of volatility. For some time, this has been low, as economic conditions remain very favourable, particularly in the United States. This has helped drive global markets higher. Volatility could well rise over coming months as the Federal Reserve continues to increase interest rates from low levels, although this appears to be well understood by the market. A more likely scenario for a substantive uplift in volatility is the uncertainty surrounding the global political environment, where issues such as trade tariffs have become more dominant, a factor which markets have largely ignored to date.

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**16 July 2018**

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions	Cost (\$'000)
Macquarie Group	15,306
BHP	12,259
CSL	11,873
Sydney Airport	11,040
Woolworths Group	8,189

Sales	Proceeds (\$'000)
BHP#	27,355
CSL#	16,417
Rio Tinto# (including \$1.95 million in off-market buyback)	10,280
Westfield Corporation (takeover by Unibail-Rodamco)	9,076
Woolworths Group#	8,661

#Sales as result of the exercise of call options

### New Companies Added to the Investment Portfolio

Janus Henderson Group	Qantas Airways
Unibail-Rodamco-Westfield	Goodman Group
Atlas Arteria	Brickworks
Reliance Worldwide	InvoCare
Ansell	Dulux Group
Worley Parsons	Reece

## TOP INVESTMENTS AS AT 30 JUNE 2018

*Includes investments held in both the Investment and Trading Portfolios*

Valued at closing prices at 29 June 2018

	Total Value \$ million	% of Portfolio
1 * Commonwealth Bank of Australia	62.7	8.3%
2 * Westpac Banking Corporation	58.5	7.7%
3 * BHP	43.7	5.8%
4 * National Australia Bank	38.0	5.0%
5 * Australia & New Zealand Banking Group	37.6	5.0%
6 * CSL	29.2	3.9%
7 * Wesfarmers	27.4	3.6%
8 * Macquarie Group	23.8	3.1%
9 * Brambles	17.7	2.3%
10 * Rio Tinto	16.9	2.2%
11 * Oil Search	15.9	2.1%
12 * Woodside Petroleum	15.7	2.1%
13 * James Hardie Industries	15.6	2.1%
14 * Transurban Group	15.1	2.0%
15 * Woolworths Group	14.9	2.0%
16 * Suncorp Group	14.6	1.9%
17 * Sydney Airport	14.0	1.8%
18 * Amcor	13.9	1.8%
19 Telstra Corporation	13.2	1.7%
20 * Qube Holdings	11.7	1.5%
	<b>500.1</b>	
<b>As % of Total Portfolio Value (excludes Cash)</b>	<b>65.9%</b>	

\* Indicates that options were outstanding against part or all of the holding

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**PORTFOLIO PERFORMANCE TO 30 JUNE 2018**


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<b>PERFORMANCE MEASURES AT 30 JUNE 2018</b>	<b>1 YEAR</b>	<b>5 YEARS %PA</b>	<b>10 YEARS %PA</b>	<b>15 YEARS %PA</b>
<b><i>PORTFOLIO RETURN – NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED</i></b>	<b>8.8%</b>	<b>6.3%</b>	<b>4.9%</b>	<b>8.0%</b>
<b>S&amp;P/ASX 200 ACCUMULATION INDEX</b>	13.0%	10.0%	6.4%	9.6%
<b>UBS 180 BANK BILLS INDEX</b>	1.8%	2.2%	3.3%	4.3%

<b><i>PORTFOLIO RETURN – NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</i></b>	<b>11.7%</b>	<b>9.6%</b>	<b>8.2%</b>	<b>11.1%</b>
<b>S&amp;P/ASX 200 GROSS ACCUMULATION INDEX*</b>	14.6%	11.6%	8.0%	11.1%

\*Incorporates the benefit of franking credits for those who can fully utilise them.

***Djerriwarrh  
Investments  
Limited***  
*Annual Financial Statements*

*30 June 2018*

## Financial statements

### Income Statement for the Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Dividends and distributions	A3	34,297	30,570
Revenue from deposits and bank bills		169	352
Other revenue		-	15
<b>Total revenue</b>		<b>34,466</b>	<b>30,937</b>
Net gains on trading portfolio	A3	70	2,278
Income from options written portfolio	A3	11,693	10,938
<b>Income from operating activities</b>		<b>46,229</b>	<b>44,153</b>
Finance Costs	B4/D2	(3,220)	(3,059)
Administration expenses	B1	(3,922)	(3,975)
Share of net profit from Associate	B1	428	389
<b>Operating result before income tax expense</b>		<b>39,515</b>	<b>37,508</b>
Income tax expense*	B2, E2	(3,509)	(3,666)
<b>Net operating result for the year</b>		<b>36,006</b>	<b>33,842</b>
Net gains/(losses) on open options positions		(6,515)	(235)
Deferred tax expense on open options positions*	B2, E2	1,954	71
		(4,561)	(164)
<b>Profit for the year</b>		<b>31,445</b>	<b>33,678</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	A5	14.27	15.39
		<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
* Total Tax Expense	B2, E2	1,555	3,595

*This Income Statement should be read in conjunction with the accompanying notes.*

## Statement of Comprehensive Income for the Year Ended 30 June 2018

	Year to 30 June 2018			Year to 30 June 2017		
	Revenue <sup>1</sup>	Capital <sup>1</sup>	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Profit for the year</b>	<b>36,006</b>	<b>(4,561)</b>	<b>31,445</b>	<b>33,842</b>	<b>(164)</b>	<b>33,678</b>
<b>Other Comprehensive Income</b>						
<i>Items that will not be recycled through the Income Statement</i>						
Gains for the period	-	28,718	<b>28,718</b>	-	50,584	<b>50,584</b>
Tax on above	-	(8,985)	<b>(8,985)</b>	-	(15,311)	<b>(15,311)</b>
<i>Items that may be recycled through the Income Statement</i>						
Net movement in fair value of swap contracts <sup>2</sup>	-	227	<b>227</b>	-	673	<b>673</b>
<b>Total Other Comprehensive Income</b>	<b>-</b>	<b>19,960</b>	<b>19,960</b>	<b>-</b>	<b>35,946</b>	<b>35,946</b>
<b>Total Comprehensive Income</b>	<b>36,006</b>	<b>15,399</b>	<b>51,405</b>	<b>33,842</b>	<b>35,782</b>	<b>69,624</b>

<sup>1</sup> 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio and unrealised gains or losses (and the tax thereon) on options in the options written portfolio. Income in the form of distributions and dividends and realised gains or losses on options is recorded as 'Revenue'. All other items, including expenses, are included in 'Net Operating Result', which is categorised under 'Revenue'.

<sup>2</sup> It is currently anticipated that the swaps will be held to maturity and consequently that they will not be recycled through the income Statement.

*This Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## Balance Sheet as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash	D1	2,025	8,378
Receivables		79,124	44,587
Tax refund due		468	-
<b>Total current assets</b>		<b>81,617</b>	<b>52,965</b>
<b>Non-current assets</b>			
Investment portfolio	A2	770,067	750,239
Deferred tax assets	E2	1,416	-
Deferred tax assets – investment portfolio	B2	-	4,619
Shares in associate	F5	717	419
<b>Total non-current assets</b>		<b>772,200</b>	<b>755,277</b>
<b>Total assets</b>		<b>853,817</b>	<b>808,242</b>
<b>Current liabilities</b>			
Payables		471	1,412
Tax payable		-	226
Borrowings – bank debt	D2	109,500	84,500
Interest rate hedging contracts	B4	210	437
Options Sold	A2	11,571	6,318
<b>Total current liabilities</b>		<b>121,752</b>	<b>92,893</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	E2	-	466
Deferred tax liabilities – investment portfolio	B2	4,344	-
<b>Total non-current liabilities</b>		<b>4,344</b>	<b>466</b>
<b>Total liabilities</b>		<b>126,096</b>	<b>93,359</b>
<b>Net Assets</b>		<b>727,721</b>	<b>714,883</b>
<b>Shareholders' equity</b>			
Share capital	A1, D6	642,268	636,888
Revaluation reserve	A1, D3	60,297	40,612
Realised capital gains reserve	A1, D4	(31,223)	(9,298)
Interest rate hedging reserve	B4	(210)	(437)
Retained profits	A1, D5	56,589	47,118
<b>Total shareholders' equity</b>		<b>727,721</b>	<b>714,883</b>

*This Balance Sheet should be read in conjunction with the accompanying notes.*

## Statement of Changes in Equity for the Year Ended 30 June 2018

### Year Ended 30 June 2018

	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	Interest Rate Hedging \$'000	Retained Profits \$'000	Total \$'000
<b>Total equity at the beginning of the year</b>		<b>636,888</b>	<b>40,612</b>	<b>(9,298)</b>	<b>(437)</b>	<b>47,118</b>	<b>714,883</b>
Dividends paid	A4	-	-	(21,973)	-	(21,974)	<b>(43,947)</b>
Shares issued under Dividend Reinvestment Plan	D6	5,401	-	-	-	-	<b>5,401</b>
Share Issue Costs	D6	(21)	-	-	-	-	<b>(21)</b>
<b>Total transactions with shareholders</b>		<b>5,380</b>	<b>-</b>	<b>(21,973)</b>	<b>-</b>	<b>(21,974)</b>	<b>(38,567)</b>
Profit for the year		-	-	-	-	31,445	<b>31,445</b>
<b>Other Comprehensive Income (net of tax)</b>							
Net gains for the period on investments <sup>1</sup>		-	19,733	-	-	-	<b>19,733</b>
Net movement in fair value of swap contracts		-	-	-	227	-	<b>227</b>
Other Comprehensive Income for the year		-	19,733	-	227	-	<b>19,960</b>
Transfer to Realised Capital Gains Reserve of cumulative gains on investments sold		-	(48)	48	-	-	<b>-</b>
<b>Total equity at the end of the year</b>		<b>642,268</b>	<b>60,297</b>	<b>(31,223)<sup>2</sup></b>	<b>(210)</b>	<b>56,589</b>	<b>727,721</b>

<sup>1</sup> Consists of an unrealised gain on investments held at the year-end of \$19.7 million (after-tax) plus cumulative gains on investments sold during the year of \$48,000 (after tax).

<sup>2</sup> See Note D4

*This Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Statement of Changes in Equity for the Year Ended 30 June 2018 (continued)

### Year Ended 30 June 2017

	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	Interest Rate Hedging \$'000	Retained Profits \$'000	Total \$'000
<b>Total equity at the beginning of the year</b>		<b>634,225</b>	<b>1,677</b>	<b>5,295</b>	<b>(1,110)</b>	<b>54,971</b>	<b>695,058</b>
Dividends paid	A4	-	-	(10,931)	-	(41,531)	(52,462)
Shares issued under Dividend Reinvestment Plan	D6	2,691	-	-	-	-	2,691
Share Issue Costs	D6	(28)	-	-	-	-	(28)
<b>Total transactions with shareholders</b>		<b>2,663</b>	<b>-</b>	<b>(10,931)</b>	<b>-</b>	<b>(41,531)</b>	<b>(49,799)</b>
Profit for the year		-	-	-	-	33,678	33,678
<b>Other Comprehensive Income (net of tax)</b>							
Net gains for the period on investments <sup>1</sup>		-	35,273	-	-	-	35,273
Net movement in fair value of swap contracts		-	-	-	673	-	673
Other Comprehensive Income for the year		-	35,273	-	673	-	35,946
Transfer to Realised Capital Gains Reserve of cumulative losses on investments sold		-	3,662	(3,662)	-	-	-
<b>Total equity at the end of the year</b>		<b>636,888</b>	<b>40,612</b>	<b>(9,298)</b> <sup>2</sup>	<b>(437)</b>	<b>47,118</b>	<b>714,883</b>

<sup>1</sup> Consists of an unrealised gain on investments held at the year-end of \$38.9 million (after-tax) plus cumulative losses on investments sold during the year of \$3.7 million (after tax).

<sup>2</sup> See Note D4

*This Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Cash Flow Statement for the Year Ended 30 June 2018

		<b>2018</b>	2017
		<b>\$'000</b>	\$'000
	<b>Note</b>	<b>Inflows/ (Outflows)</b>	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>			
Sales from trading portfolio		5,764	9,781
Purchases for trading portfolio		(148)	(2,078)
Interest received		169	352
Proceeds from entering into options in options written portfolio		25,972	27,915
Payment to close out options in options written portfolio		(15,535)	(19,245)
Dividends and distributions received		26,857	29,949
		43,079	46,674
Other receipts		-	1,015
Administration expenses		(4,219)	(3,966)
Finance costs paid		(3,214)	(3,016)
Income taxes paid		(3,388)	(4,581)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>E1</b>	<b>32,258</b>	<b>36,126</b>
<b>Cash flows from investing activities</b>			
Sales from investment portfolio		170,039	147,875
Purchases for investment portfolio		(194,448)	(134,763)
Tax paid on capital gains		(635)	(17)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(25,044)</b>	<b>13,095</b>
<b>Cash flows from financing activities</b>			
Drawing down of cash advance facilities		25,000	8,000
Share issue costs		(21)	(28)
Dividends paid		(38,546)	(49,769)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(13,567)</b>	<b>(41,797)</b>
Net increase/(decrease) in cash held		(6,353)	7,424
Cash at the beginning of the year		8,378	954
<b>Cash at the end of the year</b>	<b>D1</b>	<b>2,025</b>	<b>8,378</b>

For the purpose of the cash flow statement, 'cash' includes cash and deposits held at call.

*This Cash Flow Statement should be read in conjunction with the accompanying notes.*

## Notes to the financial statements

### A. Understanding Djerriwarrh's financial performance

#### A1. How Djerriwarrh manages its capital

Djerriwarrh's objective is to provide shareholders with attractive total returns including capital growth over the medium to long term and to pay an enhanced level of fully-franked dividends.

Djerriwarrh recognises that its capital will fluctuate with market conditions. In order to manage those fluctuations, the Board may adjust the amount of dividends paid, issue new shares, buy back the Company's shares or, where applicable, sell assets to settle any debt.

Djerriwarrh's capital consists of its shareholders' equity plus any net borrowings. A summary of the balances in equity (excluding the interest rate hedging reserve) is provided below:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Share capital	642,268	636,888
Revaluation reserve	60,297	40,612
Realised capital gains reserve	(31,223)	(9,298)
Retained profits	56,589	47,118
	<b>727,931</b>	<b>715,320</b>

Refer to notes D3-D6 for a reconciliation of movement for each equity account from period to period.

## A2. Investments held and how they are measured

Djerriwarrh has three portfolios of securities: the investment portfolio, the options written portfolio and the trading portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The investment portfolio holds securities which the company intends to retain on a long-term basis. The options written portfolio and trading portfolio are held for short-term trading only. The latter is relatively small in size when utilised. The Company predominantly writes call options but a small number of put options are also written at times (see below). Call options are only written over securities held in the investment portfolio whilst put options are fully backed by cash, cash equivalents or access to liquidity facilities.

The balance and composition of the investment portfolio was:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Equity instruments (at market value)	770,067	750,239
	<b>770,067</b>	<b>750,239</b>

The fair value (the price at which the option may be bought) at 30 June of the securities in the options written portfolio was:

Call options	(11,519)	(5,475)
Put options	(52)	(843)
	<b>(11,571)</b>	<b>(6,318)</b>

If all call options were exercised, this would lead to the sale of \$299.6 million worth of securities at an agreed price – the 'exposure' (2017: \$256.8 million). If all put options were exercised, this would lead to the purchase of \$3.4 million of securities at an agreed price (2017 : \$13.8 million).

\$101.3 million of shares are lodged with ASX Clear Pty Ltd as collateral for sold option positions written by the Company (2017: \$95.2 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Company's investment portfolio.

### How investments are shown in the financial statements

The accounting standards set out the following hierarchy for fair value measurement:

**Level 1:** quoted prices in active markets for identical assets or liabilities

**Level 2:** inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices)

**Level 3:** inputs for the asset or liabilities that are not based on observable market data

All financial instruments held by Djerriwarrh are classified as Level 1 (other than options which are Level 2). Their fair values are initially measured at the costs of acquisition and then remeasured based on quoted market prices at the end of the reporting period. Options are valued daily using an independent third-party data provider.

## Net tangible asset backing per share

The Board regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains or losses in Djerriwarrh's long-term investment portfolio. Deferred tax is calculated as set out in note B2. The relevant amounts as at 30 June 2018 and 30 June 2017 were as follows:

	30 June 2018	30 June 2017
<b>Net tangible asset backing per share</b>	<b>\$</b>	<b>\$</b>
Before tax	<b>3.31</b>	<b>3.24</b>
After tax	3.29	3.26

## Equity investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' ("OCI"), because they are equity instruments held for long-term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the statement of comprehensive income. The cumulative change in value of the shares over time is then recorded in the Revaluation Reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realised capital gains reserve.

## Options

Options are classified as financial assets or liabilities at fair value through profit and loss and usually have an expiry date within twelve months from the date that they are sold. Options written are initially brought to account at the amount received upfront for entering into the contract (the premium) and subsequently revalued to current market value.

## Securities sold and how they are measured

During the period \$203.6 million (2017 : \$186.9 million) of equity securities were sold. The cumulative gain on the sale of securities was \$48,000 for the period after tax (2017: \$3.7 million loss). This has been transferred from the revaluation reserve to the realised capital gains reserve (see Statement of Changes in Equity). These sales were accounted for at the date of trade.

Where securities are sold, any difference between the sale price and the cost is transferred from the Revaluation Reserve to the Realised capital gains reserve and the amounts noted in the Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a 'Listed Investment Company' (LIC) gain as part of the dividend, which conveys certain taxation benefits to many of Djerriwarrh's shareholders.

The realised gain or loss on options written is not recognised until the option expires, is exercised or is closed out. All unrealised gains or losses which represent movements in the Market Value of the options are recognised through the Income Statement.

### A3. Operating income

The total income received from Djerriwarrh's investments in 2018 is set out below.

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Dividends and distributions</b>		
Dividends from securities held in investment portfolio at 30 June	28,898	26,483
Dividends from investment securities sold during the year	5,399	4,087
	<b>34,297</b>	<b>30,570</b>

#### Dividend Income

Dividends from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Dividends from unlisted securities are recognised as income when they are received. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

#### Trading income & non-equity investments

Net gains on the trading and options portfolio are set out below.

<b>Net gains</b>		
Net realised gains from trading portfolio	70	2,278
Realised gains on options written portfolio	11,693	10,938
	<b>11,763</b>	<b>13,216</b>

Including the realised gain on options written above, plus the unrealised loss on open options, a total of \$5.2 million before tax was recorded through the Income Statement from options in the options written portfolio (2017 : \$10.7 million).

#### A4 . Dividends paid

The dividends paid and payable for the year ended 30 June 2018 are shown below:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>(a) Dividends paid during the year</b>		
Final dividend for the year ended 30 June 2017 of 10 cents fully franked at 30% paid 25 August 2017 (2017: 14 cents fully franked at 30% paid on 26 August 2016).	21,935	30,603
Interim dividend for the year ended 30 June 2018 of 10 cents per share fully franked at 30%, paid 21 February 2018 (2017: 10 cents fully franked at 30% paid 21 February 2017)	22,012	21,859
	<b>43,947</b>	<b>52,462</b>
<b>(b) Franking credits</b>		
Balance on the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	33,130	36,309
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(9,469)	(9,401)
<b>Net available</b>	<b>23,661</b>	<b>26,908</b>

These franking account balances would allow Djerriwarrh to frank additional dividend payments up to an amount of: 55,209 62,785

Djerriwarrh's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on Djerriwarrh paying tax on its other operating activities and on any capital gain.

#### (c) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 10 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2018 to be paid on 27 August 2018, but not recognised as a liability at the end of the financial year is:

22,095

#### (d) Listed Investment Company capital gain account

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Balance of the Listed Investment Company (LIC) capital gain account	26,565	47,879
This equates to an attributable amount	37,949	68,399

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios. \$11.0 million of the capital gain (\$15.8 million of the attributable amount) will be paid out as part of the final dividend on 27 August 2018.

## A5. Earnings per share

The table below shows the earnings per share based on the profit for the year:

<b>Basic Earnings per share</b>	<b>2018 Number</b>	2017 Number
Weighted average number of ordinary shares used as the denominator	220,294,908	218,859,903
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	31,445	33,678
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	14.27	15.39
<b>Basic net operating result per share</b>	<b>\$'000</b>	<b>\$'000</b>
Net operating result	36,006	33,842
	<b>Cents</b>	<b>Cents</b>
Basic net operating result per share	16.34	15.46

### Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earnings per share is the same as basic earnings per share. This also applies to diluted net operating result per share.

## B. Costs, Tax and Risk

### B1. Management Costs

The total management expenses for the period are as follows:

	2018 \$'000	2017 \$'000
Administration fees paid to AICS	(2,450)	(2,437)
Share of net profit from AICS as an Associate	428	389
Other administration expenses	(1,472)	(1,538)

#### Administration fees paid to AICS

Australian Investment Company Services Limited ("AICS") undertakes the day-to-day administration of Djerriwarrh's investments and its operations, including financial reporting. Djerriwarrh has a 25% shareholding in AICS and has 2 Directors on the AICS Board who are involved in approving the annual expenses budget of the Company, amongst other duties.

#### Other administration expenses

A major component of other administration expenses is Directors' remuneration. This has been summarised below:

	Short Term Benefits \$	Post- Employment Benefits \$	Total \$
<b>2018</b>			
Directors	653,811	62,114	715,925
<b>2017</b>			
Directors	698,633	66,367	765,000

Djerriwarrh recognises Directors' retirement allowances that have been crystallised as 'amounts payable'. There are no further retirement allowances that will need to be expensed.

Detailed remuneration disclosures are provided in the Remuneration Report.

The Company does not make loans to Directors.

### B2. Tax

Djerriwarrh's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments, convertible notes that are classified as debt and the options written portfolio.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where Djerriwarrh disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

## Tax expense

The income tax expense for the period is shown below:

### (a) Reconciliation of income tax expense to prima facie tax payable

	2018 \$'000	2017 \$'000
<b>Operating result before income tax expense</b>	<b>39,515</b>	<b>37,508</b>
Tax at the rate of 30% (2017 – 30%)	11,854	11,252
Tax offset for franked dividends received	(8,481)	(7,681)
Tax effect of sundry items not taxable in calculating taxable income or taxable in current year but not included in income	318	227
	<b>3,691</b>	<b>3,798</b>
Over provision in prior years	(182)	(132)
Income tax expense on operating result before net gains on investments	<b>3,509</b>	<b>3,666</b>
<b>Net gains (losses) on open options positions</b>	<b>(6,515)</b>	<b>(235)</b>
Tax at the rate of 30% (2017 – 30%)	(1,954)	(71)
Tax expense (credit) on net gains on open options positions	<b>(1,954)</b>	<b>(71)</b>
<b>Total tax expense</b>	<b>1,555</b>	<b>3,595</b>

### Deferred tax – investment portfolio

The accounting standards require us to recognise a deferred tax asset or liability for the potential capital gains tax on the unrealised gain or loss in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio and considers that the asset meets the asset recognition criteria.

	2018 \$'000	2017 \$'000
Deferred tax liabilities (assets) on unrealised gains in the investment portfolio	4,344	(4,619)
Opening balance at 1 July	(4,619)	(19,295)
Tax on realised gains	(22)	(635)
Charged to OCI for ordinary securities on gains or losses for the period	8,985	15,311
	<b>4,344</b>	<b>(4,619)</b>

### B3. Risk

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

As a Listed Investment Company that invests in tradeable securities, Djerriwarrh will always be subject to market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5% and 10% on values at 30 June, if spread equally over all assets in the investment portfolio, would have led to the following reductions (after tax) :

	2018		2017	
	\$'000		\$'000	
	5%	10%	5%	10%
Profit after Tax	-	-	-	-
Other Comprehensive Income	(26,952)	(53,905)	(26,258)	(52,517)

A market fall of 5% and 10% across the Options Written Portfolio on values at 30 June would have led to the following increases (after tax) :

	2018		2017	
	\$'000		\$'000	
	5%	10%	5%	10%
Profit after Tax	405	810	221	442
Other Comprehensive Income	-	-	-	-

Djerriwarrh seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee (normally fortnightly) and risk can be managed by reducing exposure where necessary. Djerriwarrh does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

Djerriwarrh's investment exposures by sector is as below:

	2018	2017
Energy	6.78%	4.91%
Materials	16.25%	16.11%
Industrials	12.11%	9.68%
Consumer Staples	6.76%	6.97%
Banks	26.52%	27.22%
Other Financials (incl. property trusts)	18.20%	16.97%
Telecommunications	2.10%	4.19%
Healthcare	7.06%	8.08%
Other –Consumer Discretionary, Info Technology & Utilities	3.95%	4.76%
Cash	0.27%	1.11%

Securities representing over 5% of the combined investment and trading portfolio (including options) at 30 June were :

	<b>2018</b>
Commonwealth Bank	8.3%
Westpac	7.7%
BHP	5.8%
National Australia Bank	5.0%
	<b>2017</b>
Commonwealth Bank	9.0%
Westpac	8.5%
BHP	5.8%

No other security represents over 5% of the Company's investment and trading portfolios.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or investment portfolios although stock may be purchased on-market to meet call obligations.

Djerriwarrh is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars.

#### Interest Rate Risk

Djerriwarrh is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate but it has entered into interest rate hedging contracts with the Commonwealth Bank of Australia and Westpac Bank, under which Djerriwarrh will pay a fixed interest rate on \$50 million worth of short term borrowings, as outlined below.

Counter-party	Value	Interest-rate	Start Date	Finish Date
Westpac	\$15m	2.055%	October 2015	October 2020
Commonwealth Bank	\$10m	2.0375%	April 2016	October 2019
Commonwealth Bank	\$10m	2.195%	April 2016	October 2020
Commonwealth Bank	\$15m	2.385%	December 2016	October 2021

This locked in a longer term fixed rate for a substantial proportion of Djerriwarrh's debt. Should interest rates move to the extent that the Board feel that the swaps are uneconomical, they may be unwound and the cost of unwinding them would be reflected through the Income Statement. The hedge was fully effective for the year.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Djerriwarrh is exposed to credit risk from cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

#### Cash

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks or cash management trusts which invest predominantly in securities with an A1+ rating.

In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

## Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale.

## Trading and investment portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. This risk will be realised in the event of a shortfall on winding-up of the issuing companies.

## Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

Djerriwarrh monitors its cash-flow requirements daily. The Investment Committee also monitors the level of contingent payments on a regular basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require Djerriwarrh to purchase securities, and facilities that need to be repaid. Djerriwarrh ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

Djerriwarrh's inward cash flows depend upon the dividends received. Should these drop by a material amount, Djerriwarrh would amend its outward cash-flows accordingly or draw down on more debt. Djerriwarrh's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of Djerriwarrh are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses Djerriwarrh's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying amount
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
Payables	471	-	-	471	471
Borrowings	109,500	-	-	109,500	109,500
	109,971	-	-	109,971	109,971
<b>Derivatives</b>					
Options written*	3,383	-	-	3,383	11,571
Interest rate swaps	36	36	145	217	210
	3,419	36	145	3,600	11,781
<b>30 June 2017</b>					
<b>Non-derivatives</b>					
Payables	1,412	-	-	1,412	1,412
Borrowings	84,500	-	-	84,500	84,500
	85,912	-	-	85,912	85,912
<b>Derivatives</b>					
Options written*	13,781	-	-	13,781	6,318
Interest rate swaps	338	232	702	1,272	437
	14,119	232	702	15,053	6,755

\* In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written. The contractual cash flows for put options written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e.maximum cash outflow).

#### B4. Interest Rate Swaps

	2018 \$000	2017 \$000
Opening Balance at 1 July	(437)	(1,110)
Movement for year (net of tax)	227	673
Fair Value of interest rate swap agreements at 30 June	(210)	(437)

Counter-party	Value	Interest-rate	Start Date	Finish Date
Westpac	\$15m	2.055%	October 2015	October 2020
Commonwealth Bank	\$10m	2.0375%	April 2016	October 2019
Commonwealth Bank	\$10m	2.195%	April 2016	October 2020
Commonwealth Bank	\$15m	2.385%	December 2016	October 2021

The company has entered into 4 interest rate hedging contracts as detailed above, under which the company will pay a fixed interest rate on \$50 million worth of short term borrowings which have a floating interest rate. These have been designated as effective hedges and any movements in their fair value will be shown as an adjustment against equity. The reserve and the corresponding asset/liability are measured as the fair value of the interest rate swaps net of associated tax. It is currently anticipated that the swaps will be held to maturity and consequently that they will have no impact, under current accounting standards, on the income statement.

#### C. Unrecognised items

Unrecognised items, such as contingencies, do not appear in the financial statements, usually because they do not meet the requirements for recognition. However, they have the potential to have a significant impact on the Company's financial position and performance.

Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

## Additional information

Additional information that shareholder may find useful is included here. It is grouped into three sections:

- D Balance sheet reconciliations
- E Income statement reconciliations
- F Other information

### D. Balance sheet reconciliations

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Company's operations.

#### D1. Current assets – cash

	2018 \$'000	2017 \$'000
Cash at bank and in hand (including on-call)	2,025	8,378

Cash holdings yielded an average floating interest rate of 1.78% (2017: 1.88%). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in securities with an A1+ rating.

#### D2. Credit Facilities

The Company was party to agreements under which Commonwealth Bank of Australia and Westpac Bank would extend cash advance facilities. Details of the facilities are given below.

	2018 \$'000	2017 \$'000
Commonwealth Bank of Australia – cash advance facility	130,000	140,000
Amount drawn down at 30 June	109,500	84,500
Undrawn facilities at 30 June	20,500	55,500
Westpac Bank- cash advance facility	10,000	10,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	10,000	10,000
Total short-term loan facilities	140,000	150,000
Total drawn down at 30 June	109,500	84,500
Total undrawn facilities at 30 June	30,500	65,500

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are usually drawn down for no more than three months and hence are classified as current liabilities when drawn.

During the year, a \$10 million facility with Westpac bank expired and was not renewed.

The current debt facilities are as follows :

Facility Provider	Amount	Expiry Date
Commonwealth Bank	\$50 million	31 December 2018
Westpac Bank	\$10 million	30 October 2019
Commonwealth Bank	\$40 million	30 October 2019
Commonwealth Bank	\$40 million	30 June 2021
<b>Total Facilities</b>	<b>\$140 million</b>	

### D3. Revaluation reserve

	2018 \$'000	2017 \$'000
Opening balance at 1 July	40,612	1,677
Gains/(losses) on investment portfolio	28,718	50,584
Deferred tax on above	(8,985)	(15,311)
Cumulative taxable realised (gains)/losses (net of tax)	(48)	3,662
	60,297	40,612

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note A2.

### D4. Realised capital gains reserve

	2018 \$'000			2017 \$'000		
	Taxable realised gains (net of tax)	Difference between tax and accounting costs	Total	Taxable realised gains (net of tax)	Difference between tax and accounting costs	Total
Opening balance at 1 July	46,553	(55,851)	<b>(9,298)</b>	56,224	(50,929)	<b>5,295</b>
Dividends paid	(21,973)	-	<b>(21,973)</b>	(10,931)	-	<b>(10,931)</b>
Cumulative taxable realised (losses)/gains for period	73	(3)	<b>70</b>	1,895	(4,922)	<b>(3,027)</b>
Tax on realised gains/(losses)	(22)	-	<b>(22)</b>	(635)	-	<b>(635)</b>
	24,631	(55,854)	<b>(31,223)</b>	46,553	(55,851)	<b>(9,298)</b>

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2. The difference between tax and accounting costs is a result of realised gains or losses being accounted for on an average cost basis, whilst taxable gains or losses are made based on the specific cost of the actual stock sold – i.e. on a parcel selection basis. These differences also include non-taxable realised gains or losses, e.g. losses under off-market buy-backs.

## D5. Retained profits

	2018 \$'000	2017 \$'000
Opening balance at 1 July	47,118	54,971
Dividends paid	(21,974)	(41,531)
Profit for the year	31,445	33,678
	56,589	47,118

This reserve relates to past profits.

## D6. Share capital

Date	Details	Notes	Number of shares '000	Issue Price \$	Paid-up Capital \$'000
1/7/2016	Balance		218,590		634,225
21/2/2017	Dividend Reinvestment Plan	(i)	762	3.53	2,691
	Costs of issue		-	-	(28)
30/6/2017	Balance		219,352		636,888
25/8/2017	Dividend Reinvestment Plan	(i)	768	3.44	2,641
21/2/2018	Dividend Reinvestment Plan	(i)	829	3.33	2,760
	Costs of issue		-	-	(21)
30/6/2018	Balance		220,949		642,268

- (i) Shareholders elect to have all or part of their dividend payment reinvested in new ordinary shares under the Dividend Reinvestment Plan (DRP). The price of the new DRP shares is based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X in the five days after the shares begin trading on an ex-dividend basis. The DRP was reactivated for the interim dividend for the year ended 30 June 2017.

All shares have been fully paid, rank pari passu and have no par value.

## E. Income statement reconciliations

### E1. Reconciliation of net cash flows from operating activities to profit

	2018	2017
	\$'000	\$'000
<b>Profit for the year</b>	<b>31,445</b>	<b>33,678</b>
Net decrease (increase) in trading portfolio	-	4,575
Net profit from Associate	(298)	(271)
Dividend from Associate	-	1,000
Increase (decrease) in options written portfolio	5,253	(2,033)
Dividends received as securities under DRP investments	(880)	(564)
Decrease (increase) in current receivables	(34,537)	(38,170)
- Less increase (decrease) in receivables for investment portfolio	33,536	39,023
Increase (decrease) in deferred tax liabilities	7,081	14,609
- Less (increase) decrease in deferred tax liability on investment portfolio	(8,963)	(14,676)
Increase (decrease) in current payables	(941)	(1,453)
- Less decrease (increase) in payables for investment portfolio	643	1,427
Increase (decrease) in provision for tax payable	(694)	(401)
- Less CGT provision	(22)	(635)
- Add taxes paid on capital gains	635	17
<b>Net cash flows from operating activities</b>	<b>32,258</b>	<b>36,126</b>

### E2. Tax reconciliations

#### Tax expense composition

Charge for tax payable relating to the current year	3,619	3,794
Over provision in prior years	(182)	(132)
Increase (decrease) in deferred tax liabilities	(1,882)	(67)
	<b>1,555</b>	<b>3,595</b>

#### Amounts recognised directly through Other Comprehensive Income

Net increase in deferred tax assets relating to capital gains tax on the movement in gains or losses in the investment portfolio	(8,985)	(15,311)
	<b>(8,985)</b>	<b>(15,311)</b>

### Deferred tax assets & liabilities

The deferred tax balances are attributable to:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
(a) Tax on unrealised (gains)/losses in the options written portfolio	1,572	(382)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	45	96
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(201)	(180)
	<b>1,416</b>	<b>(466)</b>
Movements:		
Opening balance at 1 July	(466)	(533)
(Credited)/charged to Income statement	1,882	67
	<b>1,416</b>	<b>(466)</b>

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect Djerriwarrh's ability to claim the deduction.

### E3. Reconciliation of profit before tax

The Board considers Djerriwarrh's operating result after tax to be a key measure of Djerriwarrh's performance. This amount excludes the impact of unrealised gains/losses on options and any gains or losses on Djerriwarrh's investment portfolio. It reconciles to Djerriwarrh's profit before tax as follows:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Operating result after income tax expense</b>	<b>36,006</b>	<b>33,842</b>
Add back income tax expense	3,509	3,666
Net gains (losses) on open options positions	(6,515)	(235)
<b>Profit for the year before tax</b>	<b>33,000</b>	<b>37,273</b>

## F. Other information

This section covers other information that is not directly related to specific line items in the financial statements, including information about related party transactions and other statutory information.

### F1. Related parties

All transactions with related parties were made on normal commercial terms and conditions and approved by independent Directors. The only such transactions were in connection with the services provided by AICS (see B1).

### F2. Remuneration of auditors

During the year the auditor earned the following remuneration:

	2018	2017
	\$	\$
<b>PricewaterhouseCoopers</b>		
Audit or review of financial reports	136,473	164,682
<u>Non-Audit Services</u>		
Taxation compliance services	22,220	24,145
<b>Total remuneration</b>	<b>158,693</b>	<b>188,827</b>

### F3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board, through its sub-committees, has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

#### Description of segments

The Board makes the strategic resource allocations for Djerriwarrh. Djerriwarrh has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for Djerriwarrh's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and Djerriwarrh's performance is evaluated on an overall basis.

#### Segment information provided to the Board

The internal reporting provided to the Board for Djerriwarrh's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of unrealised capital gains tax on investments (as reported in Djerriwarrh's Net Tangible Asset announcements to the ASX).

#### Other segment information

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio and realised income from the options portfolio.

Djerriwarrh is domiciled in Australia and most of Djerriwarrh's income is derived from Australian entities or entities that maintain a listing in Australia. Djerriwarrh has a diversified portfolio of investments, with no investment (including the unrealised gain or loss on options) comprising more than 10% of Djerriwarrh's income from operating activities.

### F4. Summary of other accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. This financial report has been authorised for issue and is presented in the Australian currency. Djerriwarrh has the power to amend and reissue the financial report.

Djerriwarrh has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash & Cash Equivalents
Share Capital	Contributed Equity
Options	Derivatives written over equity instruments that are valued at fair value through Profit or Loss

Other terminology used in the report is defined as follows:

Phrase	Definition
Net Operating Result	Total operating income after operating expenses and income tax are deducted

Djerriwarrh complies with International Financial Reporting Standards (IFRS). Djerriwarrh is a 'for profit' entity.

Djerriwarrh has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2018 ("the inoperative standards") except for AASB 9 which was adopted on 7 December 2009. The impact of the inoperative

standards has been assessed and the impact has been identified as not being material. Djerriwarrh only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

#### Basis of accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

#### Fair value of financial assets and liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of Djerriwarrh approximates their carrying value.

#### Rounding of amounts

Djerriwarrh is a company of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### F5. Associate Accounting

Associates are entities over which the Company has significant influence but not control, generally accompanied by a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost, in the Company's financial statements.

The Company has one associate - Australian Investment Company Services (AICS), incorporated in Australia, in which it has a 25 per cent shareholding. AICS provides investment and administrative services to the Company and to other Listed Investment Companies, including its Parent, Australian Foundation Investment Company (AFIC) which holds the other 75 per cent.

The Company's share of its associate's post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in Net Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

During the previous year, the Company received a fully-franked dividend of \$1,000,000 from its associate. This reduced the carrying value of the shares in the associate.

## **Independent auditor's report**

To the members of Djerriwarrh Investments Limited

### **Report on the audit of the financial report**

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#### **Our opinion**

In our opinion:

The accompanying financial report of Djerriwarrh Investments Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The financial report comprises:

- the balance sheet as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the income statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

#### **Independence**

We are independent of the Company 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* (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.

## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, the accounting processes and controls, and the industry in which the Company operates.



### Materiality

- For the purpose of our audit we used overall group materiality of 1% of the Company's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose net assets as the benchmark because, in our view, net assets is;
  - the metric against which the performance of the group is most commonly measured; and
  - the key driver of the business and determinant of the Company's value.
- We selected 1% based on our professional judgement, noting that it is within the range of commonly acceptable net asset related thresholds.

### Audit scope

- Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Company operates entirely out of its Melbourne office and we perform our audit procedures predominantly at that office.
- The administration and investment operations for the Company are conducted by Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australia Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency and results of procedures.

### Key Audit Matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Existence and valuation of Investment Portfolio
- These are further described in the Key audit matters section of our report.

### *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 for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Existence and valuation of Investment Portfolio</i></b> (Refer to note A2)</p> <p>\$770.0m</p> <p>The Investment Portfolio consists of listed Australian equities which are valued by multiplying the quantity held by market price.</p> <p>Whilst there is no significant judgement in determining the valuation of the Company's investments, investments represent a key measure of the Company's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income which also affects the deferred tax provisions. Given the pervasive nature investments have on the Company's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.</p>	<ol style="list-style-type: none"> <li>1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2018 balance.</li> <li>2) Obtained the 2018 purchases and sales listing and               <ul style="list-style-type: none"> <li>• agreed a sample of purchases and sales to original contracts; and</li> <li>• agreed a sample of original contracts to the purchases and sales listing.</li> </ul> </li> <li>3) Agreed all the investment quantity holdings at 30 June 2018 to independent third party sources.</li> <li>4) Agreed all the listed equities investment prices to independent market pricing sources.</li> <li>5) Obtained a report on whether the controls over investment purchase and sales transactions were suitably designed and operated effectively for the year and assessed the report.</li> </ol>

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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Director's Report, Additional Information section and Other Information section included in the Company's annual report for the year ended 30 June 2018, 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 identified above 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.

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### *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 *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 Company 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 Company or to cease operations, or have no realistic alternative but to do so.

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### *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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Djerriwarrh Investments Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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### *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.

### *Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of Djerriwarrh Investments Limited for the year ended 30 June 2018 included on Djerriwarrh Investments Limited's web site. The directors of the Company are responsible for the integrity of Djerriwarrh Investments Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.



PricewaterhouseCoopers



Nadia Carlin  
Partner

Melbourne  
16 July 2018