DJERRIWARRH INVESTMENTS LIMITED

ABN 38 006 862 693

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2017

CONTENTS

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

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2017 with the previous corresponding period being the year ended 30 June 2016.

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, 4 cents down from last year. This is in line with the Company's announcement for the year ended 30 June 2016 and reiterated in the announcement for the half-year ended 31 December 2016. The dividend will be paid on 25 August 2017 to ordinary shareholders on the register on 7 August 2017. Shares are expected to trade ex-dividend from 4 August 2017.

- 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 **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 8 August 2017.

- Net Operating Result after tax was $33.8 million, 19.8% down from the previous corresponding period.

- Net Operating Result per share was 15.5 cents per share, down from 19.3 cents last year.

- Net Profit attributable to members was $33.7 million, 17.3% down from $40.7 million in the previous corresponding period.

- Revenue from operating activities was $30.9 million, 16.4% down from the previous corresponding period.

- The interim dividend for the 2017 financial year was 10 cents per share (the same as last year), fully franked, and it was paid to shareholders on 21 February 2017.

- 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 2017 were $3.24 (before allowing for the final dividend), up from $3.09 (before allowing for the final dividend) at the end of the previous corresponding period.

- The 2017 AGM will be held at the RACV City Club, Melbourne, at 10.00 AM on Tuesday 10 October 2017.

Portfolio has a strong year,
16.6% return including franking

Key Themes –

- Djerriwarrh seeks to provide an enhanced level of fully franked income by using option strategies as an overlay to investing in dividend generating companies.
- Previously underperforming sectors such as banks and resources produced strong returns over the year.
- In this environment, Djerriwarrh managed the core option portfolio to capture more of the potential capital upside. This assisted Djerriwarrh's portfolio performance.
- The Company has also been seeking to further diversify the portfolio and reduced exposure to selected energy holdings early in the year.
- Twelve month portfolio return was 13.0%; including franking it was 16.6%.

Result Summary –

- Full Year Profit of $33.7 million, down from $40.7 million in the corresponding period last year. The fall in profit was a result of:
  - A decline in dividends received, particularly in the first half, from resource and energy companies, and
  - Reduced income from options compared with the prior corresponding period as a result of lower volatility and from the buying back of selected option positions over the year.
- Net Operating Result of $33.8 million, down from $42.2 million in the prior corresponding period.
- As foreshadowed last year, the Final Dividend is 10 cents per share fully franked, down from 14 cents per share last year. Dividend Reinvestment Plan is in operation at a 5% discount.

Profit

Profit for the year to 30 June 2017 was $33.7 million, down 17.3% from $40.7 million in the corresponding period last year. Dividend income was down to $30.6 million from $36.8 million last year reflecting the lower contribution from resource and energy holdings. Dividend income was also impacted by reduced holdings in bank shares as call options were exercised late in the financial year before their dividends.

Djerriwarrh's option income fell to $10.9 million from $16.1 million generated last financial year. As the Australian market rose, volatility fell to low levels contributing to reduced income from options. The pace of market increases also meant that a number of call option positions were at risk of being exercised. In this environment, Djerriwarrh looked to buy back a significant number of in-the-money call option positions to capture more of the potential upside of these holdings. This also reduced option income for the year but enhanced the total portfolio return.

The net operating result for the year was $33.8 million, down 19.8% per cent from $42.2 million in the previous corresponding period. In the opinion of 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.

Consistent with Djerriwarrh's announcement in July 2016, the final dividend was 10 cents per share fully franked, down from 14 cents per share last year. Total dividends for the year are 20 cents per share fully franked, down from 24 cents last year. The Dividend Reinvestment Plan is in operation with a 5% discount.

Dividend yield on the share price of $3.83 on 14 July 2017 is 5.2% fully franked, 7.5% grossing up for the benefit of franking credits. The share price was trading at a 14% premium to net asset backing at the end of June.

Portfolio Returns

The Australian equity market for the twelve months to 30 June 2017 was led by the strong rise in banks and resources (up 18.4% and 22.9% respectively). In part this was a result of a rebound in interest in banks given their previous underperformance and the attractive yield on offer for income focused investors. Resource stocks rose because of the better outlook for commodities as a result of improved global growth.

Djerriwarrh's portfolio return including franking for the year to 30 June 2017 was 16.6% whereas the S&P/ASX 200 Accumulation Index return including franking was 15.7% (franking added 3.6% to Djerriwarrh's return and 1.6% to the Index).

Given Djerriwarrh's option activities can limit some of the capital growth of the portfolio in strongly rising markets, this performance is encouraging. It is reflective of the bias toward larger companies (given this is where the most active options markets are) and the decision to buy back selected in-the-money call options to maintain holdings where practical. The reduced exposure to the energy sector early in the year also assisted performance.

The major contributors to portfolio performance were the four major banks, BHP, Rio Tinto and CSL.

Portfolio Adjustments

Given the rise in banking and resource stocks over the year, a number of the larger purchases in the portfolio were to replenish holdings in these sectors as option exercises reduced exposures. Djerriwarrh also looked to add to its holdings in CSL and Macquarie Bank, although again some were sold because of option exercises.

The focus on adding incrementally to a range of existing smaller company holdings continued as attractive opportunities arose. This also included participation in capital raisings by IRESS, TPG Telecom, Qube Holdings and Cover-More Group (subsequently taken over).

New companies added to the portfolio during the period were Isentia Group, Link Administration Holdings (including participation in its share placement to purchase Capita Asset Services in the UK), Cochlear, NetComm Wireless and Wellcom Group.

Moving Forward

Djerriwarrh's typical option coverage is in the range of 30% to 50% of the portfolio (average coverage for the year was 40%). A number of call option positions were exercised just prior to the end of the financial year, leaving option coverage of the portfolio at 32% which is at the lower end of this range. In this context we will be increasing this coverage given our view is that the market is fully priced.

With a mixed outlook for the Australian economy the upcoming reporting season will be crucial in providing support to current market valuations. With dividend payout ratios relatively high, profit results will also be important for the outlook for dividend income. We may see some increase in profitability from resource companies, although the outlook for many other companies in a low growth, highly competitive environment in our view still remains subdued. In respect of the banking sector it was very disappointing as investors to see the Federal and SA State Governments seek to introduce a punitive tax on the country's five biggest banks. These taxes bypass the company tax system, as such they provide no franking credits for shareholders and represent double taxation on these companies' activities.

The level of volatility is another important factor that Djerriwarrh considers in its option writing activities. This has been very low over the year as the Australian market followed the US market higher. Our expectation is volatility could well increase over coming months as the Federal Reserve and European Central Bank look to increase interest rates from very low levels on the back of improved economic conditions. Geo-political issues could also have a role in lifting volatility as tensions in the Middle East and Korean Peninsula play out.

Please direct any enquiries to:

Ross Barker	Geoff Driver
Managing Director	General Manager
(03) 9225 2101	(03) 9225 2102

17 July 2017

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions	Cost ($'000)
Commonwealth Bank of Australia	18,075
Westpac Banking Corporation	12,223
BHP	9,542
National Australia Bank	7,084
Computershare	6,137
Macquarie Group	5,200
Scentre Group	5,176
CSL	5,045

Sales	Proceeds ($'000)
National Australia Bank #	19,868
Commonwealth Bank of Australia#	17,921
ANZ Banking Group#	14,164
CSL#	14,131
Rio Tinto#	8,532
BHP#	7,273
Cover-More Group (takeover by Zurich Insurance)	6,570
Oil Search	5,467

#Sales as result of the exercise of call options

New Companies Added to the Investment Portfolio	
Isentia Group	Wellcom Group
Link Administration Holdings	NetComm Wireless
Cochlear	

MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

Sales	Proceeds ($'000)
ASG Group[(a)]	5,620
Pacific Brands[(b)]	1,936

(a) Sold while under takeover offer
(b) Takeover by Hanesbrands

TOP INVESTMENTS AS AT 30 JUNE 2017

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 30 June 2017

			Total Value $ million	% of the portfolio
1	*	Commonwealth Bank of Australia	66.8	9.0%
2	*	Westpac Banking Corporation	63.1	8.5%
3	*	BHP	43.1	5.8%
4	*	National Australia Bank	35.0	4.7%
5	*	Australia & New Zealand Banking Group	34.0	4.6%
6	*	Wesfarmers	25.8	3.5%
7	*	Telstra Corporation	25.7	3.5%
8	*	CSL	25.2	3.4%
9	*	Brambles	19.3	2.6%
10	*	Rio Tinto	18.0	2.4%
11	*	Oil Search	14.6	2.0%
12	*	QBE Insurance Group	13.7	1.8%
13	*	James Hardie Industries	13.0	1.7%
14	*	Woolworths	13.0	1.7%
15	*	Qube Holdings	12.9	1.7%
16	*	Seek	12.2	1.6%
17	*	Woodside Petroleum	11.9	1.6%
18	*	Amcor	11.8	1.6%
19	*	AMP	11.6	1.6%
20		Mirrabooka Investments	11.3	1.5%
			481.8	
		As % of Total Portfolio Value (excludes Cash)	64.8%	

* Indicates that options were outstanding against part of the holding

Portfolio Performance to 30 June 2017

Performance Measures At 30 June 2017	1 Year	5 Years %PA	10 Years %PA	15 Years %PA
Portfolio return - Net Asset backing including dividends reinvested	***13.0%***	***8.3%***	***2.5%***	***7.2%***
S&P/ASX 200 Accumulation Index	14.1%	11.8%	3.6%	8.6%

Net Asset backing gross return including dividends reinvested*	***16.6%***	***11.7%***	***5.6%***	***10.3%***
S&P/ASX 200 gross Accumulation Index*	15.7%	13.5%	5.2%	10.1%

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

Djerriwarrh Investments Limited

Annual Financial Statements

30 June 2017

Financial statements

Income Statement for the Year Ended 30 June 2017

	Note	**2017 $'000**	2016 $'000
Dividends and distributions	A3	30,570	36,794
Revenue from deposits and bank bills		352	164
Other revenue		15	41
Total revenue		**30,937**	**36,999**
Net gains on trading portfolio	A3	2,278	2,057
Income from options written portfolio	A3	10,938	16,074
Income from operating activities		**44,153**	**55,130**
Finance Costs	B4/D2	(3,059)	(4,488)
Administration expenses	B1	(3,975)	(3,894)
Share of net profit from Associate	B1	389	262
Operating result before income tax expense		**37,508**	**47,010**
Income tax expense*	B2, E2	(3,666)	(4,806)
Net operating result for the year		**33,842**	**42,204**
Net gains/(losses) on open options positions		(235)	(2,123)
Deferred tax expense on open options positions*	B2, E2	71	637
		(164)	(1,486)
Profit for the year		**33,678**	**40,718**
		Cents	**Cents**
Basic earnings per share	A5	15.39	18.63
		2017 $'000	**2016 $'000**
* Total Tax Expense	B2, E2	3,595	4,169

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

Statement of Comprehensive Income for the Year Ended 30 June 2017

	Year to 30 June 2017			Year to 30 June 2016		
	Revenue[1]	**Capital[1]**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Profit for the year	**33,842**	**(164)**	**33,678**	**42,249**	**(1,531)**	**40,718**
Other Comprehensive Income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	50,584	**50,584**	-	(76,994)	**(76,994)**
Tax on above	-	(15,311)	**(15,311)**	-	23,054	**23,054**
Items that may be recycled through the Income Statement						
Net movement in fair value of swap contracts[2]	-	673	**673**	-	311	**311**
Total Other Comprehensive Income	-	**35,946**	**35,946**	-	**(53,629)**	**(53,629)**
Total Comprehensive Income	**33,842**	**35,782**	**69,624**	**42,249**	**(55,160)**	**(12,911)**

[1] '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'.

[2] 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 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash	D1	8,378	954
Receivables		44,587	6,417
Trading portfolio		-	4,575
Total current assets		**52,965**	**11,946**
Non-current assets			
Investment portfolio	A2	750,239	752,655
Deferred tax assets – investment portfolio	B2	4,619	19,295
Shares in associate	F5	419	1,148
Total non-current assets		**755,277**	**773,098**
Total assets		**808,242**	**785,044**
Current liabilities			
Payables		1,412	2,865
Tax payable		226	627
Borrowings – bank debt	D2	84,500	76,500
Interest rate hedging contracts	B4	437	1,110
Options Sold	A2	6,318	8,351
Total current liabilities		**92,893**	**89,453**
Non-current liabilities			
Deferred tax liabilities	E2	466	533
Deferred tax liabilities – investment portfolio	B2	-	-
Total non-current liabilities		**466**	**533**
Total liabilities		**93,359**	**89,986**
Net Assets		**714,883**	**695,058**
Shareholders' equity			
Share capital	A1, D6	636,888	634,225
Revaluation reserve	A1, D3	40,612	1,677
Realised capital gains reserve	A1, D4	(9,298)	5,295
Interest rate hedging reserve	B4	(437)	(1,110)
Retained profits	A1, D5	47,118	54,971
Total shareholders' equity		**714,883**	**695,058**

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

Statement of Changes in Equity for the Year Ended 30 June 2017

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
Total equity at the beginning of the year		**634,225**	**1,677**	**5,295**	**(1,110)**	**54,971**	**695,058**
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)**
Total transactions with shareholders		**2,663**	**-**	**(10,931)**	**-**	**(41,531)**	**(49,799)**
Profit for the year		-	-	-	-	33,678	**33,678**
Other Comprehensive Income (net of tax)							
Net gains for the period on investments[1]		-	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)	-	-	**-**
Total equity at the end of the year		**636,888**	**40,612**	**(9,298)** [2]	**(437)**	**47,118**	**714,883**

[1] 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).

[2] 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 2017 (continued)

Year Ended 30 June 2016

	Note	Share Capital $'000	Revaluation Reserve $'000	Realised Capital Gains $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total $'000
Total equity at the beginning of the year		**634,225**	**50,126**	**26,132**	**(1,421)**	**55,740**	**764,802**
Dividends paid	A4	-	-	(15,301)	-	(41,532)	**(56,833)**
Total transactions with shareholders		**-**	**-**	**(15,301)**	**-**	**(41,532)**	**(56,833)**
Profit for the year		-	(45)	-	-	40,763	**40,718**
Other Comprehensive Income (net of tax)							
Net loss for the period on investments[1]		-	(53,940)	-	-	-	**(53,940)**
Net movement in fair value of swap contracts		-	-	-	311	-	**311**
Other Comprehensive Income for the year		-	(53,940)	-	311	-	**(53,629)**
Transfer to Realised Capital Gains Reserve of cumulative losses on investments sold		-	5,536	(5,536)		-	**-**
Total equity at the end of the year		**634,225**	**1,677**	**5,295** [2]	**(1,110)**	**54,971**	**695,058**

[1] Consists of an unrealised loss on investments held at the year-end of $48.4 million (after-tax) plus cumulative losses on investments sold during the year of $5.5 million (after tax).

[2] 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 2017

	Note	**2017 $'000 Inflows/ (Outflows)**	2016 $'000 Inflows/ (Outflows)
Cash flows from operating activities			
Sales from trading portfolio		9,781	14,590
Purchases for trading portfolio		(2,078)	(12,822)
Interest received		352	164
Proceeds from entering into options in options written portfolio		27,915	28,798
Payment to close out options in options written portfolio		(19,245)	(12,591)
Dividends and distributions received		29,949	30,685
		46,674	48,824
Other receipts		1,015	41
Administration expenses		(3,966)	(4,123)
Finance costs paid		(3,016)	(4,507)
Income taxes paid		(4,581)	(5,832)
Net cash inflow/(outflow) from operating activities	E1	**36,126**	**34,403**
Cash flows from investing activities			
Sales from investment portfolio		147,875	148,734
Purchases for investment portfolio		(134,763)	(157,755)
Tax paid on capital gains		(17)	(11,062)
Net cash inflow/(outflow) from investing activities		**13,095**	**(20,083)**
Cash flows from financing activities			
Drawing down of cash advance facilities		8,000	1,500
Share issue costs		(28)	-
Dividends paid		(49,769)	(56,833)
Net cash inflow/(outflow) from financing activities		**(41,797)**	**(55,333)**
Net increase/(decrease) in cash held		7,424	(41,013)
Cash at the beginning of the year		954	41,967
Cash at the end of the year	D1	**8,378**	**954**

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 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:

	2017 **$'000**	2016 $'000
Share capital	636,888	634,225
Revaluation reserve	40,612	1,677
Realised capital gains reserve	(9,298)	5,295
Retained profits	47,118	54,971
	715,320	696,168

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:

	2017 **$'000**	2016 $'000
Equity instruments (at market value)	750,239	752,655
Puttable instruments and convertible notes that are classified as debt	-	-
	750,239	752,655

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	(5,475)	(7,930)
Put options	(843)	(421)
	(6,318)	(8,351)

If all call options were exercised, this would lead to the sale of $256.8 million worth of securities at an agreed price – the 'exposure' (2016: $325.3 million). If all put options were exercised, this would lead to the purchase of $13.8 million of securities at an agreed price (2016 : $13.4 million).

$95.2 million of shares are lodged with ASX Clear Pty Ltd as collateral for sold option positions written by the Company (2016: $82.8 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 2017 and 30 June 2016 were as follows:

	30 June 2017	30 June 2016
Net tangible asset backing per share	**$**	$
Before tax	**3.24**	**3.09**
After tax	3.26	3.18

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.

Puttable instruments & Convertible Notes

Puttable instruments and convertible notes are classified as financial assets at fair value through profit and loss under the accounting standards and therefore need to be treated differently in the financial statements from equity investments, even though they are managed in the same way as the rest of the investment portfolio. Changes in the value of these investments are reflected in the Income Statement and not in the Statement of Comprehensive Income with the other investments. Any gains or losses on these securities are transferred from Retained Profits to the Revaluation Reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realised capital gains reserve.

Securities sold and how they are measured

During the period $186.9 million (2016 : $142.9 million) of equity securities were sold. The cumulative loss on the sale of securities was $3.7 million for the period after tax (2016: $5.5 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 2017 is set out below.

	2017 $'000	2016 $'000
Dividends and distributions		
Dividends from securities held in investment portfolio at 30 June	26,483	32,951
Dividends from investment securities sold during the year	4,087	3,838
Dividends from securities held in trading portfolio at 30 June	-	-
Dividends from trading securities sold during the year	-	5
	30,570	36,794

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.

Net gains		
Net realised gains from trading portfolio	2,278	2,015
Realised gains on options written portfolio	10,938	16,074
Unrealised gains from trading portfolio	-	107
Gains/(losses) on non-equity investments	-	(65)
	13,216	18,131

Including the realised gain on options written above, plus the unrealised loss on open options, a total of $10.7 million before tax was recorded through the Income Statement from options in the options written portfolio (2016 : $14.0 million).

A4 . Dividends paid

The dividends paid and payable for the year ended 30 June 2017 are shown below:

	2017 $'000	2016 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2016 of 14 cents fully franked at 30% paid 26 August 2016 (2016: 16 cents fully franked at 30% paid on 21 August 2015).	30,603	34,974
Interim dividend for the year ended 30 June 2017 of 10 cents per share fully franked at 30%, paid 21 February 2017 (2016: 10 cents fully franked at 30% paid 16 February 2016)	21,859	21,859
	52,462	56,833
(b) Franking credits		
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	36,309	43,671
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(9,401)	(13,116)
Net available	26,908	30,555
These franking account balances would allow Djerriwarrh to frank additional dividend payments up to an amount of:	62,785	71,295

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 2017 to be paid on 25 August 2017, but not recognised as a liability at the end of the financial year is:

21,935

(d) Listed Investment Company capital gain account	**2017 $'000**	2016 $'000
Balance of the Listed Investment Company (LIC) capital gain account	47,879	56,906
This equates to an attributable amount	68,399	81,294

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 ($15.7 million of the attributable amount) will be paid out as part of the final dividend on 25 August 2017.

A5. Earnings per share

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

Basic Earnings per share	**2017 Number**	2016 Number
Weighted average number of ordinary shares used as the denominator	218,859,903	218,589,718
	$'000	**$'000**
Profit for the year	33,678	40,718
	Cents	**Cents**
Basic earnings per share	15.39	18.63
Basic net operating result per share	**$'000**	**$'000**
Net operating result	33,842	42,204
	Cents	**Cents**
Basic net operating result per share	15.46	19.31

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:

	2017 $'000	2016 $'000
Administration fees paid to AICS	(2,437)	(2,412)
Share of net profit from AICS as an Associate	389	262
Other administration expenses	(1,538)	(1,482)

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 $**
2017	698,633	66,367	765,000
Directors			
2016			
Directors	641,468	60,937	702,405

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

	2017 $'000	2016 $'000
Operating result before income tax expense	**37,508**	**47,010**
Tax at the Australian tax rate of 30% (2016 – 30%)	11,252	14,103
Tax offset for franked dividends received	(7,681)	(9,127)
Tax effect of sundry items not taxable in calculating taxable income or taxable in current year but not included in income	227	(37)
	3,798	**4,939**
Over provision in prior years	(132)	(133)
Income tax expense on operating result before net gains on investments	**3,666**	**4,806**
Net gains (losses) on open options positions	**(235)**	**(2,123)**
Tax at the Australian tax rate of 30% (2016 – 30%)	(71)	(637)
Tax expense (credit) on net gains on open options positions	**(71)**	**(637)**
Total tax expense	**3,595**	**4,169**

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.

	2017 $'000	2016 $'000
Deferred tax liabilities (assets) on unrealised gains in the investment portfolio	(4,619)	(19,295)
Opening balance at 1 July	(19,295)	3,796
Charged to income statement for puttable instruments/non-equity investments	-	(20)
Tax on realised gains	(635)	(17)
Charged to OCI for ordinary securities on gains or losses for the period	15,311	(23,054)
	(4,619)	(19,295)

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) :

	2017 $'000		**2016 $'000**	
	5%	10%	5%	10%
Profit after Tax	-	-	-	-
Other Comprehensive Income	(26,258)	(52,517)	(26,343)	(52,686)

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

	2017 $'000		**2016 $'000**	
	5%	10%	5%	10%
Profit after Tax	221	442	132	264
Other Comprehensive Income	-	-	-	-

The Revaluation Reserve at 30 June 2017 was $40.6 million (2016 : $1.7 million). It would require a fall in the value of the investment portfolio of 4.8% after tax to fully deplete this (2016 : 0.3%).

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:

	2017	2016
Energy	4.91%	6.19%
Materials	16.11%	14.26%
Industrials	9.89%	9.70%
Consumer Staples	6.97%	6.89%
Banks	27.25%	25.62%
Other Financials (incl. property trusts)	16.97%	16.79%
Telecommunications	4.19%	6.35%
Healthcare	8.08%	10.10%
Other –Consumer Discretionary, Info Technology & Utilities	4.52%	3.97%
Cash	1.11%	0.13%

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

	2017
Commonwealth Bank	9.0%
Westpac	8.5%
BHP	5.8%

	2016
Commonwealth Bank	8.1%
Westpac	6.8%
National Australia Bank	5.6%

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 $75 million worth of short term borrowings, $25 million which commenced in February 2013, $15 million which commenced in October 2015, $20 million of which commenced in April 2016 and $15 million which commenced in December 2016. This locked in a longer term fixed rate for a substantial proportion of Djerriwarrh's debt and will expire respectively in February 2018, October 2020, October 2019, October 2020 and October 2021. 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. Interest rate risk on hybrid securities held by Djerriwarrh is reflected in their market value. 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 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Payables	1,412	-	-	1,412	1,412
Borrowings	84,500	-	-	84,500	84,500
	85,912	-	-	85,912	85,912
Derivatives					
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
30 June 2016					
Non-derivatives					
Payables	2,865	-	-	2,865	2,865
Borrowings	76,500	-	-	76,500	76,500
	79,365	-	-	79,365	79,365
Derivatives					
Options written*	13,444	-	-	13,444	8,351
Interest rate swaps	220	220	391	831	1,110
	13,664	220	391	14,275	9,461

* 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

	2017 $000	2016 $000
Opening Balance at 1 July	(1,110)	(1,421)
Movement for year (net of tax)	673	311
Fair Value of interest rate swap agreements	(437)	(1,110)

The company has entered into 5 interest rate hedging contracts at rates of 3.3225%, 2.3125%, 2.0375%, 2.195% and 2.385% with Westpac and the Commonwealth Bank of Australia, under which the company will pay a fixed interest rate on $75 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. These swaps commenced in February 2013, October 2015, April 2016 and December 2016. They have between 3 and 5 year effective lives. 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 don't 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

	2017 **$'000**	2016 $'000
Cash at bank and in hand (including on-call)	8,378	954

Cash holdings yielded an average floating interest rate of 1.88% (2016: 1.94%). 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.

	2017 **$'000**	2016 $'000
Commonwealth Bank of Australia – cash advance facility	140,000	140,000
Amount drawn down at 30 June	84,500	76,500
Undrawn facilities at 30 June	55,500	63,500
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	150,000	150,000
Total drawn down at 30 June	84,500	76,500
Total undrawn facilities at 30 June	65,500	73,500

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.

The current debt facilities are as follows :

Facility Provider	Amount	Expiry Date
Commonwealth Bank	$50 million	30 October 2017
Commonwealth Bank	$40 million	30 June 2018
Westpac Bank	$10 million	30 June 2018
Commonwealth Bank	$50 million	31 December 2018
Total Facilities	**$150 million**	

D3. Revaluation reserve

	2017 $'000	2016 $'000
Opening balance at 1 July	1,677	50,126
Gains/(losses) on investment portfolio		
- Equity Instruments	50,584	(76,994)
- Puttable/debt instruments (transferred from retained profits)	-	(65)
Deferred tax on above	(15,311)	23,074
Cumulative taxable realised (gains)/losses (net of tax)	3,662	5,536
	40,612	1,677

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

	2017 $'000			2016 $'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	56,224	(50,929)	**5,295**	71,531	(45,399)	**26,132**
Dividends paid	(10,931)	-	**(10,931)**	(15,301)	-	**(15,301)**
Cumulative taxable realised (losses)/gains for period	1,895	(4,922)	**(3,027)**	11	(5,530)	**(5,519)**
Tax on realised gains/(losses)	(635)	-	**(635)**	(17)	-	**(17)**
	46,553	(55,851)	**(9,298)**	56,224	(50,929)	**5,295**

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

	2017 $'000	2016 $'000
Opening balance at 1 July	54,971	55,740
Dividends paid	(41,531)	(41,532)
Profit for the year	33,678	40,718
Transfer to revaluation reserve (puttable instruments & non-equity investments) (net of tax)	-	45
	47,118	54,971

This reserve relates to past profits.

D6. Share capital

Date	Details	Notes	Number of shares '000	Issue Price $	Paid-up Capital $'000
1/7/2015	Balance		218,590		634,225
30/6/2016	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

(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

	2017 $'000	2016 $'000
Profit for the year	**33,678**	**40,718**
Change in fair value of puttable instruments	-	45
Net decrease (increase) in trading portfolio	4,575	(4,575)
Net profit from Associate	(271)	(183)
Dividend from Associate	1,000	-
Increase (decrease) in options written portfolio	(2,033)	2,251
Dividends received as securities under DRP investments	(564)	(1,888)
Decrease (increase) in current receivables	(38,170)	266
- Less increase (decrease) in receivables for investment portfolio	39,023	(223)
Increase (decrease) in deferred tax liabilities	14,609	(23,667)
- Less (increase) decrease in deferred tax liability on investment portfolio	(14,676)	23,091
Increase (decrease) in current payables	(1,453)	(9,053)
- Less decrease (increase) in payables for investment portfolio	1,427	8,769
Increase (decrease) in provision for tax payable	(401)	(12,193)
- Less CGT provision	(635)	(17)
- Add taxes paid on capital gains	17	11,062
Net cash flows from operating activities	**36,126**	**34,403**

E2. Tax reconciliations

Tax expense composition

Charge for tax payable relating to the current year	3,794	4,898
Over provision in prior years	(132)	(133)
Increase (decrease) in deferred tax liabilities	(67)	(576)
Increase (decrease) in deferred tax liabilities – investment portfolio	-	(20)
	3,595	**4,169**

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	(15,311)	23,054
	(15,311)	**23,054**

Deferred tax assets & liabilities

The deferred tax balances are attributable to:

		2017 $'000	2016 $'000
(a)	Tax on unrealised gains in the trading portfolio	-	32
(b)	Tax on unrealised gains in the options written portfolio	382	453
(c)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	(96)	(101)
(d)	Interest and dividend income receivable which is not assessable for tax until receipt	180	149
		466	533

Movements:

	2017	2016
Opening balance at 1 July	533	1,109
Credited/(charged) to Income statement	(67)	(576)
Credited/(charged) to OCI	-	-
	466	533

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.

The portion of deferred tax liability likely to be reversed within the next 12 months is $0.6 million (2016: $0.6 million). This relates primarily to items described in items (b) and (d) above.

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:

	2017 $'000	2016 $'000
Operating result after income tax expense	33,842	42,204
Add back income tax expense	3,666	4,806
Net gains (losses) on open options positions	(235)	(2,123)
Profit for the year before tax	**37,273**	**44,887**

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:

	2017	2016
	$	$
PricewaterhouseCoopers		
Audit or review of financial reports	164,682	152,381
<u>Non-Audit Services</u>		
Taxation compliance services	24,145	22,220
Total remuneration	188,827	174,601

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 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 2017 ("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 year, the Company received a fully-franked dividend of $1,000,000 from its associate. This has reduced the carrying value of the shares in the associate.

Independent auditor's report to the shareholders of Djerriwarrh Investments Limited

Report on the audit of the financial report

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 2017 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 Company's financial report comprises:

- the balance sheet as at 30 June 2017
- the income statement for the year then ended
- 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 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.

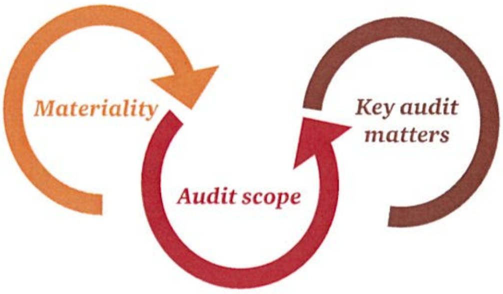
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.



Materiality

- For the purpose of our audit we used overall 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 Company 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

- 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.
- Our audit focused on where subjective judgements were made; 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 the Company's associate, 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

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.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of the investment portfolio *(Refer to note A2) $750.2m* Investments mostly consist of listed Australian equities and exchange traded options which are valued by multiplying the quantity held by market price. 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.	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 2017 balance. 2) Agreed all the investment quantity holdings at 30 June 2017 to independent third party sources. 3) Agreed all the listed equities investment prices to independent market pricing sources. 4) Agreed all the exchange traded options prices to independent market pricing confirmations. 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.

Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Additional Information section and Other Information section included in the Company's annual report for the year ended 30 June 2017 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.

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 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.

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: www.auasb.gov.au/auditors_responsibilities/ar2.pdf This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Djerriwarrh Investments limited for the year ended 30 June 2017 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.

PricewaterhouseCoopers

Charles Christie
Partner

17 July 2017