



## Appendix 4E Statement for the Full-Year ending 30 June 2020

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

This announcement was authorised for release by the Board of Djerriwarrh Investments Limited  
ABN 38 006 862 693

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the year ended 30 June 2020 with the previous corresponding period being the year ended 30 June 2019.

These preliminary results are based on financial statements that are in the process of being audited.

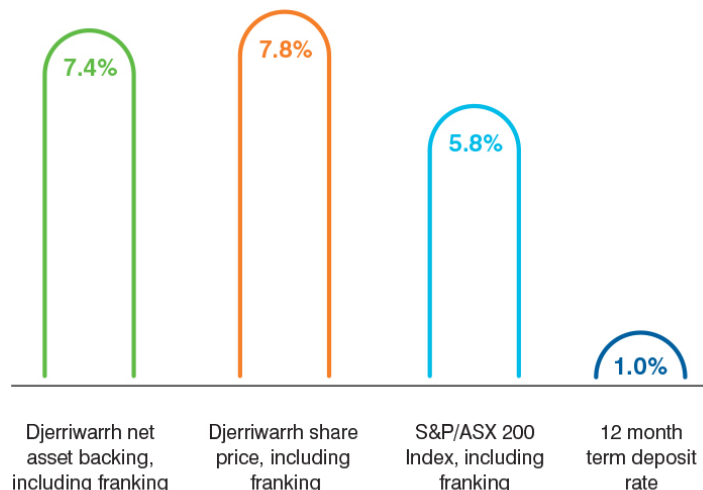
### Results for announcement to the market

- The final dividend is 5.25 cents per share fully franked, down from 10 cents last year, and in accordance with the more flexible approach to dividends, as outlined to shareholders at the last half-year announcement. The dividend will be paid on 28 August 2020 to ordinary shareholders on the register on 7 August 2020. Shares are expected to trade ex-dividend from 6 August 2020. Total dividends for the year ending 30 June 2020 are therefore 14 cents, down from 20 cents last year.
- There were no taxable capital gains included in this 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 **nil 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 10 August 2020.
- A Dividend Substitution Share Plan (DSSP) has also been introduced. More details are available on the Company's website, including the DSSP rules and a Class Ruling from the ATO which indicates that for many Australian taxpayers receipt of shares under the DSSP does not result in any taxable income. However, it should be noted that participants in the scheme will not be able to receive franking credits as part of this distribution. Shareholders should seek their own taxation advice as to whether participation under the DSSP is in their best interests. Pricing of shares issued under the DSSP is the same as for the DRP. The last date for receipt of an election notice for participation in the plan is 10 August 2020. All shares issued under the DSSP will rank equally with existing shares.
- Net Operating Result after tax, which is the key component of the dividend, was \$28.1 million, 25.5% down from the previous corresponding period.
- Net Operating Result per share was 12.54 cents per share, down from 16.95 cents last year.
- Net Profit attributable to members was \$32.9 million, 4.1% down from \$34.3 million in the previous corresponding period.
- Revenue from operating activities was \$28.6 million, 28.2% down from the previous corresponding period.
- The interim dividend for the 2020 financial year was 8.75 cents per share (down from 10 cents last year), fully franked, and it was paid to shareholders on 20 February 2020.
- Net tangible assets per share before any provision for deferred tax on the unrealised losses on the long-term investment portfolio as at 30 June 2020 were \$2.70 (before allowing for the final dividend), down from \$3.31 (before allowing for the final dividend) at the end of the previous corresponding period.
- The 2020 AGM will be held by way of a virtual meeting via the internet or telephone conference call at 10.00 am on Thursday 8 October 2020. Further details on how to participate will be sent to shareholders.

## Full Year Report to 30 June 2020

- Djerriwarrh seeks to provide an enhanced level of fully franked income that is higher than is available from the S&P/ASX 200 and which is delivered at a low cost to shareholders. The enhanced yield is achieved through a bias to investing in companies with higher dividend income, produced over the short and long term, as well as using option strategies to generate additional income and realised capital gains. The use of options will typically reshape the profile of returns producing more immediate income at the expense of potential capital growth.
- The onset of the COVID-19 pandemic in the early part of the calendar year produced excessive swings in sector and market performance in the second half of the financial year. In particular, many income focused stocks, which would normally do well in difficult economic conditions severely underperformed, whilst Healthcare and Information Technology sectors delivered very strong returns despite this volatility.
- Full Year Profit was \$32.9 million, down from \$34.3 million in the corresponding period last year. Key components of the result are:
  - a significant decline in income from investments, down from \$39.7 million last year to \$28.6 million this financial year, as many companies deferred or reduced dividends because of the economic impact of the COVID-19 pandemic. The period last year also included a one-off accounting dividend of \$1.3 million from the demerger of Coles from Wesfarmers;
  - income from option activity was \$7.7 million, up from \$6.4 million; and
  - recognition of gains in open option positions were \$4.9 million, compared with a loss of \$3.3 million last year.
- Net Operating Result (which excludes the impact of open option positions and is therefore a better measure of the Company's income from its investment activities) was \$28.1 million, down 25.5% from \$37.6 million in the prior corresponding period because of the decline in dividends received.
- Final dividend of 5.25 cents per share fully franked, down from 10 cents per share fully franked for the corresponding period last year. Total dividends for the year of 14 cents per share - last financial year total dividends were 20 cents per share.
- At 30 June 2020, the yield on the portfolio (net asset backing) was 7.4%, including franking, whereas the yield on the S&P/ASX 200, including franking, was 5.8%.

Relative yields based on total dividend for the year (assumes an investor can take full advantage of the franking credits)



## **Adjustment to the Final Dividend**

The level of dividend declared each year is determined by taking into consideration the Net Operating Result (which is made up of the dividends received from the companies that Djerriwarrh invests in, as well as the income generated from option strategies) and a prudent distribution of realised capital gains when available. The Company believes the Net Operating Result, which excludes the valuation impact of open option positions, is a better measure of Djerriwarrh's income from its investment activities.

The Net Operating Result per share for the 12-months to 30 June 2020 was 12.5 cents per share, down from 17.0 cents per share last financial year.

Dividend income for the financial year, particularly in the second half, was impacted by the deferment and reduction in the dividend of three of four major banks and reduced dividends from Alumina, Sydney Airport and James Hardie Industries. In addition, last year's figure included special dividends from BHP, Wesfarmers and Mirrabooka Investments, none of which were repeated this financial year.

While increased volatility towards the end of the financial year assisted with the generation of option income, the negative impact of very low interest rates on option income continues to be a headwind for this activity and is not expected to change in the foreseeable future.

There were no distributable realised capital gains generated this financial year.

Under normal circumstances the final dividend would be close to the Net Operating Result for the final half, which is 4.9 cents per share. The Directors, in considering the difficult conditions brought about by the COVID-19 pandemic, have also decided to use a small amount of reserves to bring the final dividend up to 5.25 cents per share, fully franked. Last year's final dividend was 10 cents per share fully franked. Total dividends for the year are 14 cents per share; last financial year total dividends were 20 cents per share. A Dividend Reinvestment Plan and a newly introduced Dividend Substitution Share Plan are in place, with no discount, given the share price is trading below the net asset backing per share.

Based on the total dividend for the year, the dividend yield on the net asset backing at 30 June 2020 was 5.2% and 7.4%, grossed up for franking credits (assuming a shareholder can take full advantage of the franking credits). Based on the net asset backing and including franking, this represents an enhanced yield of 1.6% versus the yield available from the S&P/ASX 200 Index. Based on the share price of \$2.55 (at 30 June 2020) the yield was 5.5% and 7.8%, grossed up for franking.

Moving into this financial year, the outlook for company dividends in particular is likely to be under pressure, as economic conditions remain very uncertain. However, the principle of targeting an enhanced yield versus the ASX 200 Index remains a core investment objective. At this point, the Company also continues to have a strong franking position as well as a healthy level of reserves.

## **Portfolio Adjustments**

The key focus for Djerriwarrh over the last 12 months has been to reinforce the overall quality of the companies within the portfolio, while maintaining a suitable balance between short term income yield and long term growth in capital and income. The number of holdings in the portfolio was reduced from 59 to 49 over the 12-month period to narrow the focus of the portfolio to better quality companies, many of which have the capacity to grow their dividends into the future.

Major sales for the 12-month period were predominantly as a result of the exercise of call options. This included positions in CSL and Wesfarmers, and Commonwealth Bank and National Australia Bank early in the first half of the year, before bank share prices came under pressure. There was also some reduction in the holding of James Hardie Industries, which remains a large position in the portfolio. Holdings exited through the year included AUB Group, Ansell, Worley and Treasury Wine Estates

Purchases in the portfolio in the year were because of the desire to rebuild positions where stocks were sold as a result of the exercise of call options, participation in discounted capital raisings and to take advantage of weakness in shares prices as markets capitulated in March and April as the fallout of COVID-19 was at its peak.

New companies added to the portfolio through the 12-month period were Auckland International Airport, InvoCare, BWP Trust (a REIT exposed predominantly to Bunnings Warehouse), ARB Corporation and ASX.

## **Portfolio Returns**

The second half of the financial year produced very difficult operating conditions for Djerriwarrh. The very sharp run up in the market, which was up 7.2% in the first 7 weeks of the calendar year, meant a very high proportion of our call options were strongly in the money and likely to be exercised. To protect Djerriwarrh's portfolio exposure to these companies, a number of call options were bought back at a cost and moved into option positions with higher exercise prices. The subsequent 36.5% fall from the market peak in February through to late March, when the market reached a low point for the year, was the sharpest fall in 33 years since the 1987 market crash (and much faster than the rate of decline in the 2007/9 GFC). Remarkably without any real change in economic conditions, the S&P/ASX 200 price Index increased 29.7% from this low point until the end of the financial year, driven primarily by an expansion in market valuations. There were also significant variations in sector performance over the financial year. Healthcare and Information Technology were up 27.4% and 19.4% respectively. In contrast, Energy was down 28.7% and Financials fell 21.4%, as many income focused stocks which would normally do well in difficult economic conditions severely underperformed.

Djerriwarrh's total portfolio return, including franking, for the 12-months to 30 June 2020 was negative 11.5%. The return of the S&P/ASX 200 Accumulation Index return, including franking, was negative 6.6%. The relative underperformance was driven by the large exposure to the banks, option exercises on high-quality companies such as CSL through the year, and the poor performance from exposures to Oil Search and Woodside Petroleum, as energy prices came under severe pressure in the second half of the financial year, and Sydney Airport.

The more significant positive contributors (including dividends and option income) to Djerriwarrh's portfolio performance over the 12-month period were CSL, Wesfarmers, Woolworths, Coles Group and James Hardie Industries.

## **Moving Forward**

Changes made to the portfolio during the year give us confidence about the construct of the portfolio moving forward. We believe that the current portfolio provides Djerriwarrh with an appropriate balance between delivering income and capital growth over the long term.

With the extreme volatility in the market, we will continue to look for appropriate opportunities to write call options on selected holdings. In adopting this approach, overall option coverage of the portfolio is likely to be between the normal range of 35% to 40%, as we are conscious that in the short term we do not want to be exercised on quality companies exhibiting the potential for long term income growth.

Please direct any enquiries to:

Mark Freeman  
Managing Director  
(03) 9225 2122

Geoff Driver  
General Manager  
(03) 9225 2102

**20 July 2020**

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## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

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Acquisitions	Cost (\$'000)
Wesfarmers	21,832
Transurban Group (includes participation in placement at \$14.70)	17,238
Insurance Australia Group	12,973
Goodman Group	12,650
Telstra	10,397

Sales	Proceeds (\$'000)
CSL <sup>#</sup>	25,583
Commonwealth Bank <sup>#</sup>	23,059
Wesfarmers <sup>#</sup>	22,335
James Hardie Industries	11,881
National Australia Bank <sup>#</sup>	10,102

<sup>#</sup>Sales as result of the exercise of call options

### New Companies Added to the Investment Portfolio

Auckland International Airport  
ARB Corporation  
InvoCare  
BWP Trust  
ASX

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## TOP INVESTMENTS AS AT 30 JUNE 2020

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

Valued at closing prices at 30 June 2020

	Total Value \$ million	% of Portfolio
1 * BHP Group	48.9	7.2%
2 * Commonwealth Bank of Australia	45.0	6.6%
3 * Westpac Banking Corporation	38.9	5.7%
4 * Macquarie Group	32.5	4.8%
5 * National Australia Bank	31.0	4.6%
6 * Transurban Group	30.3	4.5%
7 * CSL	29.5	4.4%
8 * Australia and New Zealand Banking Group	28.4	4.2%
9 Telstra Corporation	24.6	3.6%
10 * Wesfarmers	23.5	3.5%
11 * Woolworths Group	20.0	2.9%
12 * Goodman Group	19.5	2.9%
13 * Ramsay Health Care	17.1	2.5%
14 * Sydney Airport	17.1	2.5%
15 * Amcor	15.9	2.3%
16 * Insurance Australia Group	15.5	2.3%
17 * Atlas Arteria	14.9	2.2%
18 Woodside Petroleum	14.2	2.1%
19 * Brambles	13.9	2.0%
20 * Rio Tinto	13.1	1.9%
<b>Total</b>	<b>494.0</b>	
<b>As % of Total Portfolio Value (excludes Cash)</b>	<b>72.8%</b>	

\* Indicates options were written against part of the holding

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## PORTFOLIO PERFORMANCE TO 30 JUNE 2020

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PERFORMANCE MEASURES AT 30 JUNE 2020	1 YEAR	5 YEARS %PA	10 YEARS %PA	15 YEARS %PA
<i>PORTFOLIO RETURN – NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED</i>	<b>-13.6%</b>	<b>1.5%</b>	<b>4.7%</b>	<b>4.6%</b>
<b>S&amp;P/ASX 200 ACCUMULATION INDEX</b>	-7.7%	6.0%	7.8%	6.7%
<b>180 BANK BILLS INDEX</b>	0.7%	1.8%	2.7%	3.7%

<i>PORTFOLIO RETURN – NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</i>	<b>-11.5%</b>	<b>4.5%</b>	<b>7.8%</b>	<b>7.6%</b>
<b>S&amp;P/ASX 200 GROSS ACCUMULATION INDEX*</b>	-6.6%	7.5%	9.4%	8.3%

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



***Djerriwarrh  
Investments  
Limited***

*Annual Financial Statements*

*30 June 2020*

## Financial statements

### Income Statement for the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Dividends and distributions	A3	28,562	39,668
Revenue from deposits and bank bills		59	215
Other revenue		3	-
<b>Total revenue</b>		<b>28,624</b>	<b>39,883</b>
Net gains/(losses) on trading portfolio	A3	854	(427)
Income from options written portfolio	A3	7,673	6,376
<b>Income from operating activities</b>		<b>37,151</b>	<b>45,832</b>
Finance Costs	B4/D2	(2,857)	(2,816)
Administration expenses	B1	(4,114)	(3,942)
Share of net profit from Associate	B1	664	633
<b>Operating result before income tax expense</b>		<b>30,844</b>	<b>39,707</b>
Income tax expense*	B2, E2	(2,793)	(2,077)
<b>Net operating result for the year</b>		<b>28,051</b>	<b>37,630</b>
Net gains/(losses) on open options positions		6,957	(4,714)
Deferred tax on open options positions*	B2, E2	(2,087)	1,414
		4,870	(3,300)
<b>Profit for the year</b>		<b>32,921</b>	<b>34,330</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	A5	14.72	15.47
		<b>2020</b>	<b>2019</b>
		<b>\$'000</b>	<b>\$'000</b>
* Total Tax Expense	B2, E2	4,880	663

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

## Statement of Comprehensive Income for the Year Ended 30 June 2020

	Year to 30 June 2020			Year to 30 June 2019		
	Revenue <sup>1</sup> \$'000	Capital <sup>1</sup> \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
<b>Profit for the year</b>	<b>28,051</b>	<b>4,870</b>	<b>32,921</b>	<b>37,630</b>	<b>(3,300)</b>	<b>34,330</b>
<b>Other Comprehensive Income</b>						
<i>Items that will not be recycled through the Income Statement</i>						
(Losses)/Gains for the period	-	(126,917)	<b>(126,917)</b>	-	10,050	<b>10,050</b>
Tax on above	-	37,759	<b>37,759</b>	-	(3,238)	<b>(3,238)</b>
<i>Items that may be recycled through the Income Statement</i>						
Net movement in fair value of swap contracts <sup>2</sup>	-	198	<b>198</b>	-	(464)	<b>(464)</b>
<b>Total Other Comprehensive Income</b>	-	<b>(88,960)</b>	<b>(88,960)</b>	-	<b>6,348</b>	<b>6,348</b>
<b>Total Comprehensive Income</b>	<b>28,051</b>	<b>(84,090)</b>	<b>(56,039)</b>	<b>37,630</b>	<b>3,048</b>	<b>40,678</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 2020

	Note	2020 \$'000	2019 \$'000
<b>Current assets</b>			
Cash	D1	1,463	29,211
Receivables		2,198	27,909
Tax refund due		329	637
<b>Total current assets</b>		<b>3,990</b>	<b>57,757</b>
<b>Non-current assets</b>			
Investment portfolio	A2	690,424	807,905
Deferred tax assets – investment portfolio	B2	31,282	-
Deferred tax assets - other	E2	867	2,738
Shares in associate	F5	622	1,158
<b>Total non-current assets</b>		<b>723,195</b>	<b>811,801</b>
<b>Total assets</b>		<b>727,185</b>	<b>869,558</b>
<b>Current liabilities</b>			
Payables		181	412
Borrowings – bank debt	D2	78,000	110,500
Interest rate hedging contracts	B4	476	674
Options Sold	A2	11,683	21,896
<b>Total current liabilities</b>		<b>90,340</b>	<b>133,482</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities – investment portfolio	B2	-	6,458
<b>Total non-current liabilities</b>		<b>-</b>	<b>6,458</b>
<b>Total liabilities</b>		<b>90,340</b>	<b>139,940</b>
<b>Net Assets</b>		<b>636,845</b>	<b>729,618</b>
<b>Shareholders' equity</b>			
Share capital	A1, D6	652,854	647,761
Revaluation reserve	A1, D3	(20,539)	64,863
Realised capital gains reserve	A1, D4	(59,324)	(51,114)
Interest rate hedging reserve	B4	(476)	(674)
Retained profits	A1, D5	64,330	68,782
<b>Total shareholders' equity</b>		<b>636,845</b>	<b>729,618</b>

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

## Statement of Changes in Equity for the Year Ended 30 June 2020

### Year Ended 30 June 2020

	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>647,761</b>	<b>64,863</b>	<b>(51,114)<sup>2</sup></b>	<b>(674)</b>	<b>68,782</b>	<b>729,618</b>
Dividends paid	A4	-	-	(4,454)	-	(37,373)	(41,827)
Shares issued under Dividend Reinvestment Plan	D6	5,114	-	-	-	-	5,114
Share Issue Costs	D6	(21)	-	-	-	-	(21)
<b>Total transactions with shareholders</b>		<b>5,093</b>	<b>-</b>	<b>(4,454)</b>	<b>-</b>	<b>(37,373)</b>	<b>(36,734)</b>
Profit for the year		-	-	-	-	32,921	32,921
<b>Other Comprehensive Income (net of tax)</b>							
Net losses for the period on investments <sup>1</sup>		-	(89,158)	-	-	-	(89,158)
Net movement in fair value of swap contracts		-	-	-	198	-	198
Other Comprehensive Income for the year		-	(89,158)	-	198	-	(88,960)
Transfer to Realised Capital Gains Reserve of cumulative losses on investments sold		-	3,756	(3,756)	-	-	-
<b>Total equity at the end of the year</b>		<b>652,854</b>	<b>(20,539)</b>	<b>(59,324)<sup>2</sup></b>	<b>(476)</b>	<b>64,330</b>	<b>636,845</b>

<sup>1</sup> Consists of an unrealised loss on investments held at the year-end of \$85.4 million (after-tax) plus cumulative losses on investments sold during the year of \$3.8 million (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 2020 (continued)

### Year Ended 30 June 2019

	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>642,268</b>	<b>60,297</b>	<b>(31,223)</b>	<b>(210)</b>	<b>56,589</b>	<b>727,721</b>
Dividends paid	A4	-	-	(22,137)	-	(22,137)	<b>(44,274)</b>
Shares issued under Dividend Reinvestment Plan	D6	5,515	-	-	-	-	<b>5,515</b>
Share Issue Costs	D6	(22)	-	-	-	-	<b>(22)</b>
<b>Total transactions with shareholders</b>		<b>5,493</b>	<b>-</b>	<b>(22,137)</b>	<b>-</b>	<b>(22,137)</b>	<b>(38,781)</b>
Profit for the year		-	-	-	-	34,330	<b>34,330</b>
<b>Other Comprehensive Income (net of tax)</b>							
Net gains for the period on investments <sup>1</sup>		-	6,812	-	-	-	<b>6,812</b>
Net movement in fair value of swap contracts		-	-	-	(464)	-	<b>(464)</b>
Other Comprehensive Income for the year		-	6,812	-	(464)	-	<b>6,348</b>
Transfer to Realised Capital Gains Reserve of cumulative gains on investments sold		-	(2,246)	2,246	-	-	<b>-</b>
<b>Total equity at the end of the year</b>		<b>647,761</b>	<b>64,863</b>	<b>(51,114)<sup>2</sup></b>	<b>(674)</b>	<b>68,782</b>	<b>729,618</b>

<sup>1</sup> Consists of an unrealised gain on investments held at the year-end of \$4.6 million (after-tax) plus cumulative gains on investments sold during the year of \$2.2 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 2020

		2020 \$'000	2019 \$'000
	Note	Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>			
Sales from trading portfolio		11,506	5,964
Purchases for trading portfolio		(7,105)	(6,095)
Interest received		59	215
Proceeds from entering into options in options written portfolio		46,249	30,164
Payment to close out options in options written portfolio		(41,823)	(18,166)
Dividends and distributions received		26,408	35,205
		35,294	47,287
Administration expenses		(4,113)	(3,940)
Finance costs paid		(2,955)	(2,709)
Income taxes paid		(1,335)	(3,075)
<b>Net cash inflow/(outflow) from operating activities</b>	E1	<b>26,891</b>	<b>37,563</b>
<b>Cash flows from investing activities</b>			
Sales from investment portfolio		241,028	277,744
Purchases for investment portfolio		(225,310)	(250,319)
Tax paid on capital gains		(1,124)	(22)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>14,594</b>	<b>27,403</b>
<b>Cash flows from financing activities</b>			
Drawing down/(repayment) of cash advance facilities		(32,500)	1,000
Share issue costs		(21)	(22)
Dividends paid		(36,712)	(38,758)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(69,233)</b>	<b>(37,780)</b>
Net increase/(decrease) in cash held		(27,748)	27,186
Cash at the beginning of the year		29,211	2,025
<b>Cash at the end of the year</b>	D1	<b>1,463</b>	<b>29,211</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>2020</b>	2019
	<b>\$'000</b>	\$'000
Share capital	652,854	647,761
Revaluation reserve	(20,539)	64,863
Realised capital gains reserve	(59,324)	(51,114)
Retained profits	64,330	68,782
	<b>637,321</b>	<b>730,292</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>2020</b>	2019
	<b>\$'000</b>	\$'000
Equity instruments (at market value)	690,424	807,905
	690,424	807,905

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	(10,900)	(21,594)
Put options	(783)	(302)
	(11,683)	(21,896)

If all call options were exercised, this would lead to the sale of \$235.4 million worth of securities at an agreed price – the 'exposure' (2019: \$412.9 million). If all put options were exercised, this would lead to the purchase of \$20.8 million of securities at an agreed price (2019 : \$26.6 million).

\$80.5 million of shares are lodged with ASX Clear Pty Ltd as collateral for sold option positions written by the Company (2019: \$103.9 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 2020 and 30 June 2019 were as follows:

	30 June 2020	30 June 2019
<b>Net tangible asset backing per share</b>	<b>\$</b>	<b>\$</b>
Before tax	<b>2.70</b>	<b>3.31</b>
After tax	2.84	3.28

## 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 \$217.5 million (2019 : \$227.2 million) of equity securities were sold from the investment portfolio. The cumulative loss on the sale of securities was \$3.8 million for the period (2019: \$2.2 million gain), both after tax. 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 2020 is set out below.

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Dividends and distributions</b>		
Dividends from securities held in investment portfolio at 30 June	25,047	34,195
Dividends from investment securities sold during the year	3,515	5,348
Dividends from trading securities sold during the year	-	125
	<b>28,562</b>	<b>39,668</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/(losses) from securities in the trading portfolio	854	(553)
Net realised gains from options in the trading portfolio	-	126
Realised gains on options written portfolio	7,673	6,376
	<b>8,527</b>	<b>5,949</b>

Including the realised gain on options written above, plus the unrealised gain on open options, a total of \$14.6 million before tax was recorded through the Income Statement from options in the options written portfolio (2019 : \$1.7 million).

## A4 . Dividends paid

The dividends paid and payable for the year ended 30 June 2020 are shown below:

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>(a) Dividends paid during the year</b>		
Final dividend for the year ended 30 June 2019 of 10 cents fully franked at 30% paid 27 August 2019 (2019: 10 cents fully franked at 30% paid on 27 August 2018).	22,270	22,095
Interim dividend for the year ended 30 June 2020 of 8.75 cents per share fully franked at 30%, paid 20 February 2020 (2019: 10 cents fully franked at 30% paid 21 February 2019)	19,557	22,179
	<b>41,827</b>	<b>44,274</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	28,113	34,028
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(5,046)	(9,544)
<b>Net available</b>	<b>23,067</b>	<b>24,484</b>

These franking account balances would allow Djerriwarrh to frank additional dividend payments up to an amount of:	53,823	57,129
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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 5.25 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2020 to be paid on 28 August 2020, but not recognised as a liability at the end of the financial year is:

11,773

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>(d) Listed Investment Company capital gain account</b>		
Balance of the Listed Investment Company (LIC) capital gain account	2,117	7,976
This equates to an attributable amount	3,024	11,395

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. No capital gain will be paid out as part of the final dividend on 28 August 2020.

## 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>2020 Number</b>	2019 Number
Weighted average number of ordinary shares used as the denominator	223,648,033	221,974,315
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	32,921	34,330
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	14.72	15.47
<b>Basic net operating result per share</b>	<b>\$'000</b>	<b>\$'000</b>
Net operating result	28,051	37,630
	<b>Cents</b>	<b>Cents</b>
Basic net operating result per share	12.54	16.95

## 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:

	2020 \$'000	2019 \$'000
Administration fees paid to AICS	(2,634)	(2,515)
Share of net profit from AICS as an Associate	664	633
Other administration expenses	(1,480)	(1,427)

#### 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 which include oversight of risk management and compliance.

#### 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>2020</b>			
Directors	595,331	52,169	647,500
<b>2019</b>			
Directors	575,344	54,656	630,000

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*

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Operating result before income tax expense</b>	<b>30,844</b>	<b>39,707</b>
Tax at the rate of 30% (2019 – 30%)	9,253	11,912
Tax offset for franked dividends received	(6,776)	(9,713)
Demerger dividend not taxable	-	(377)
Tax effect of sundry items not taxable in calculating taxable income or taxable in current year but not included in income	612	456
	<b>3,089</b>	<b>2,278</b>
Over provision in prior years	(296)	(201)
Income tax expense on operating result before net gains on investments	<b>2,793</b>	<b>2,077</b>
<b>Net gains (losses) on open options positions</b>	<b>6,957</b>	<b>(4,714)</b>
Tax at the rate of 30% (2019 – 30%)	2,087	(1,414)
Tax expense (credit) on net gains on open options positions	<b>2,087</b>	<b>(1,414)</b>
<b>Total tax expense</b>	<b>4,880</b>	<b>663</b>

### Deferred tax – investment portfolio

During the second half of the year, a deferred tax asset has arisen on unrealised losses in the investment portfolio. The Company considers its reversal to be probable.

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
Deferred tax (assets)/liabilities on unrealised gains or losses in the investment portfolio	(31,282)	6,458
Opening balance at 1 July	6,458	4,344
Tax on realised gains or losses	19	(1,124)
Charged to OCI for ordinary securities on gains or losses for the period	(37,759)	3,238
	<b>(31,282)</b>	<b>6,458</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) :

	2020		2019	
	\$'000		\$'000	
	5%	10%	5%	10%
Profit after Tax	-	-	-	-
Other Comprehensive Income	(24,165)	(48,330)	(28,277)	(56,553)

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

	2020		2019	
	\$'000		\$'000	
	5%	10%	5%	10%
Profit after Tax	409	818	766	1,533
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:

	2020	2019
Energy	4.78%	5.91%
Materials	15.23%	16.10%
Industrials	17.08%	12.96%
Consumer Staples	4.10%	4.45%
Banks	21.07%	26.91%
Other Financials (incl. property trusts)	15.48%	12.81%
Telecommunications	5.02%	3.34%
Healthcare	8.17%	8.18%
Other –Consumer Discretionary, Info Technology & Utilities	8.84%	5.76%
Cash	0.22%	3.58%

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



	<b>2020</b>
BHP	7.2%
Commonwealth Bank	6.6%
Westpac	5.7%
	<b>2019</b>
Commonwealth Bank	9.3%
Westpac	7.2%
BHP	7.1%
National Australia Bank	6.0%
Australia and New Zealand Banking Group	5.3%
CSL	5.1%

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 \$40 million worth of short term borrowings, as outlined below.

Counter-party	Value	Interest-rate	Start Date	Finish Date
Westpac	\$15m	2.3125%	October 2015	October 2020
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 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 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. Receivables also include dividends from securities that have passed the record date for the distribution but have not paid as at the current date.

## Trading and investment portfolios

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 2020	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
Payables	181	-	-	181	181
Borrowings	78,000	-	-	78,000	78,000
	78,181	-	-	78,181	78,181
<b>Derivatives</b>					
Options written*	20,799	-	-	20,799	11,683
Interest rate swaps	347	172	457	976	476
	21,146	172	457	21,775	12,159
<b>30 June 2019</b>					
<b>Non-derivatives</b>					
Payables	412	-	-	412	412
Borrowings	110,500	-	-	110,500	110,500
	110,912	-	-	110,912	110,912
<b>Derivatives</b>					
Options written*	26,555	-	-	26,555	21,896
Interest rate swaps	174	150	222	546	674
	26,729	150	222	27,101	22,570

\* 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

	<b>2020</b>	2019
	<b>\$000</b>	\$000
Opening Balance at 1 July	(674)	(210)
Movement for year (net of tax)	198	(464)
Fair Value of interest rate swap agreements at 30 June	(476)	(674)

<b>Counter-party</b>	<b>Value</b>	<b>Interest-rate</b>	<b>Start Date</b>	<b>Finish Date</b>
Westpac	\$15m	2.3125%	October 2015	October 2020
Commonwealth Bank	\$10m	2.195%	April 2016	October 2020
Commonwealth Bank	\$15m	2.385%	December 2016	October 2021

The Company has entered into 3 interest rate hedging contracts as detailed above, under which the Company will pay a fixed interest rate on \$40 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.

Further notes to the financial statements are included here. These are grouped into grouped into three sections:

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

## D. Balance sheet reconciliations

This section provides information about the basis of calculation of line items in the financial statements.

### D1. Current assets – cash

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
Cash at bank and in hand (including on-call)	1,463	29,211

Cash holdings yielded an average floating interest rate of 0.99% (2019: 2.08%). 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 National Australia Bank would extend cash advance facilities. The facility with Westpac Bank expired during the year. Details of the facilities are given below.

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
Commonwealth Bank of Australia – cash advance facility	140,000	130,000
Amount drawn down at 30 June	68,000	110,500
Undrawn facilities at 30 June	72,000	19,500
Westpac Bank- cash advance facility	0	10,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	0	10,000
National Australia Bank- cash advance facility	10,000	0
Amount drawn down at 30 June	10,000	0
Undrawn facilities at 30 June	0	0
Total short-term loan facilities	150,000	140,000
Total drawn down at 30 June	78,000	110,500
Total undrawn facilities at 30 June	72,000	29,500

The above borrowings, with the exception of the NAB facility, 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 2021
Commonwealth Bank	\$40 million	30 June 2021
Commonwealth Bank	\$40 million	31 December 2020
Commonwealth Bank	\$10 million	31 December 2020
National Australia Bank	\$10 million	22 July 2020
<b>Total Facilities</b>	<b>\$150 million</b>	

The debt facility with National Australia Bank (which was entered into during the year) is structured in the form of a securities lending arrangement. The terms of the agreement require that securities be pledged as collateral for the drawn secured borrowings under that facility and that such securities satisfy a minimum value of \$11 million (110% of the total facility). These securities are held by the National Australia Bank but included as part of the Company's investment portfolio. As at 30 June 2020 the market value of the securities pledged as collateral was \$17.7 million.

### D3. Revaluation reserve

	2020 \$'000	2019 \$'000
Opening balance at 1 July	64,863	60,297
Gains/(losses) on investment portfolio	(126,917)	10,050
Deferred tax on above	37,759	(3,238)
Cumulative taxable realised (gains)/losses (net of tax)	3,756	(2,246)
	(20,539)	64,863

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

	2020 \$'000			2019 \$'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	5,116	(56,230)	<b>(51,114)</b>	24,631	(55,854)	<b>(31,223)</b>
Dividends paid	(4,454)	-	<b>(4,454)</b>	(22,137)	-	<b>(22,137)</b>
Cumulative taxable realised (losses)/gains for period	(230)	(3,545)	<b>(3,775)</b>	3,746	(376)	<b>3,370</b>
Tax on realised gains/(losses)	19	-	<b>19</b>	(1,124)	-	<b>(1,124)</b>
	451	(59,775)	<b>(59,324)</b>	5,116	(56,230)	<b>(51,114)</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.

Note that LIC gains paid to shareholders also include the LIC gains received from other LICs that Djerriwarrh invests in.

#### D5. Retained profits

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
Opening balance at 1 July	68,782	56,589
Dividends paid	(37,373)	(22,137)
Profit for the year	32,921	34,330
	<b>64,330</b>	<b>68,782</b>

This reserve relates to past profits.

#### D6. Share capital

Date	Details	Notes	Number of shares '000	Issue Price \$	Paid-up Capital \$'000
1/7/2018	Balance		220,949		642,268
27/8/2018	Dividend Reinvestment Plan	(i)	836	3.29	2,752
21/2/2019	Dividend Reinvestment Plan	(i)	912	3.03	2,763
	Costs of issue		-	-	(22)
30/6/2019	Balance		222,697		647,761
27/8/2019	Dividend Reinvestment Plan	(i)	815	3.31	2,698
20/2/2020	Dividend Reinvestment Plan	(i)	741	3.26	2,416
	Costs of issue		-	-	(21)
30/6/2020	Balance		224,253		652,854

- (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.*

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

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Profit for the year</b>	<b>32,921</b>	<b>34,330</b>
Net profit from Associate	(464)	(441)
Dividend from Associate	1,000	-
Sale from trading to investment portfolio	-	(1,655)
Increase (decrease) in options written portfolio	(10,213)	10,325
Dividends received as securities under DRP investments	(2,199)	(3,956)
Decrease (increase) in current receivables	25,711	51,215
- Less increase (decrease) in receivables for investment portfolio	(22,970)	(49,589)
Increase (decrease) in deferred tax	(35,869)	792
- Less (increase) decrease in deferred tax on investment portfolio	37,740	(2,114)
Increase (decrease) in current payables	(231)	(59)
- Less decrease (increase) in payables for investment portfolio	14	(14)
Increase (decrease) in provision for tax payable	308	(169)
- Less CGT provision	19	(1,124)
- Add taxes paid on capital gains	1,124	22
<b>Net cash flows from operating activities</b>	<b>26,891</b>	<b>37,563</b>

### E2. Tax reconciliations

#### Tax expense composition

Charge for tax payable relating to the current year	3,305	2,186
Over provision in prior years	(296)	(201)
Decrease (increase) in deferred tax assets	1,871	(1,322)
	<b>4,880</b>	<b>663</b>

#### Amounts recognised directly through Other Comprehensive Income

Net increase in deferred tax assets/liabilities relating to capital gains tax on the movement in gains or losses in the investment portfolio	37,759	(3,238)
	<b>37,759</b>	<b>(3,238)</b>

### Deferred tax assets

The deferred tax balances are attributable to:

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
(a) Tax on unrealised (gains)/losses in the options written portfolio	899	2,986
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	14	14
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(114)	(262)
(d) Capital Losses	68	-
	<b>867</b>	<b>2,738</b>

Movements:

Opening balance at 1 July	2,738	1,416
Credited/charged to Income statement	(1,871)	1,322
	<b>867</b>	<b>2,738</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>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Operating result after income tax expense</b>	<b>28,051</b>	<b>37,630</b>
Add back income tax expense	2,793	2,077
Net gains (losses) on open options positions	6,957	(4,714)
<b>Profit for the year before tax</b>	<b>37,801</b>	<b>34,993</b>



## F. Further information

This section covers 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 and F5).

### F2. Remuneration of auditors

During the year the auditor earned the following remuneration:

	2020	2019
	\$	\$
<b>PricewaterhouseCoopers</b>		
Audit or review of financial reports	142,124	130,113
<u>Non-Audit Services</u>		
Taxation compliance services	17,995	17,556
<b>Total remuneration</b>	<b>160,119</b>	<b>147,669</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 only two investments (including the unrealised gain or loss on options) comprising more than 10% of Djerriwarrh's income from operating activities –BHP (12.8%) and Commonwealth Bank (12.8%) (2019 : Nil).

### 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 on 20 July 2020 in accordance with a resolution of the Board and is presented in the Australian currency. The directors of Djerriwarrh have 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 2020 ("the inoperative standards"). 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 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, AICS paid a \$4 million fully franked dividend to its shareholders, out of which the Company received \$1 million.