Tax Transparency Report

2017-2018

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1. Introduction

Djerriwarrh Investments Limited ("DJW" or "Djerriwarrh") is a Listed Investment Company as defined in the Income Tax Assessment Act 1997 s 115.290.

Djerriwarrh is listed on the Australian Securities Exchange (code "DJW") and its shares may be purchased or sold via a broker. Full details regarding the Company's corporate history, Board & Management, Corporate Governance, Financial Statements and Annual Reports and dividend payment are available via its website www.djerri.com.au

Djerriwarrh through its Board and Investment Committee manage the Company's portfolios of investments. It has an arrangement with Australian Investment Company Services Limited (an entity in which Djerriwarrh has a 25% share) to provide administrative and operational services.

Listed Investment Companies (LIC) which make capital gains upon which tax is payable on the sale of investments held for more than one year are able to attach to their dividends a LIC capital gains amount which some shareholders are able to use to claim a tax deduction. For more details, see the Company's Annual Report.

As a listed company with approximately 18,000 shareholders, Djerriwarrh is fully compliant with Principle 6 of the "ASX Governance Principles" in respecting the rights of security holders. As part of that, the Board of Djerriwarrh maintains that this includes being transparent about the taxation affairs of the Company.

The Board has therefore determined that Djerriwarrh should publish a Tax Transparency Report in accordance with the Voluntary Tax Transparency Code as developed by the Board of Taxation and released as part of the Federal Budget in May 2016.

As Djerriwarrh is a Listed Investment Company with operations only in Australia, it has no international related party dealings or offshore financing or tax concessions.

2. Approach to Tax Strategy and Governance

Tax Strategy & Governance

The Board has a formal policy in place with regards to taxation strategy. This is disclosed below :

"The Board of Djerriwarrh Investments Limited seeks to meet its obligations with regards to current and future taxation on its activities in a manner that maintains its reputation as a responsible and secure vehicle for its shareholders' funds.

Djerriwarrh will prepare tax returns and disclose its tax positions based on its', and its advisers', interpretation of current taxation legislation and consistent with ATO guidance, where appropriate.

Djerriwarrh's strategy is to provide the best investment outcome for its shareholders consistent with its stated goals. This by necessity will not involve utilising high-risk taxation-driven strategies.

Unless a range of taxation outcomes are specifically provided for under the legislation (e.g. parcel selection for Capital Gains Tax), if there is a possibility that a transaction or range of transactions could be taxed in different ways, or if there is a difference of views, Djerriwarrh will usually seek to record the transaction in a conservative manner consistent with legislation and ATO guidance.

Management and their advisers will inform the Board either directly or through the Audit Committee when such a disparity of outcomes exists, whilst being mindful of materiality and reputational risk.

Djerriwarrh will meet its taxation obligations in a timely manner and will ensure that the policies, procedures and practices are maintained to meet this policy."

A standing item on the Board meeting agenda allows Management to provide the Board with an update on taxation matters, consistent with the above policy.

In addition, the Board's Audit Committee receives reports from the external auditor (see below) on their review of the taxation balances (including calculations) at the half-year and year-end.

As an LIC that invests primarily in Australian listed assets, the Company's tax affairs are relatively simple, and relate to income tax payable on the distributions that it receives (whilst accounting for any attached franking credits) plus the net income from interest and option trading, and tax on the capital gains that it makes from its investments held on capital account. Much of the tax paid and franking credits received are passed onto Djerriwarrh's shareholders in the form of franked dividends.

Taxation Risk Management

The Board of Djerriwarrh Investments Limited is responsible for overseeing the operations of the Company and ensuring that a sound system of internal controls are in place for risk management purposes.

This includes taxation risk, which is defined by the Company as the risk that the Company takes a tax position that is not in accordance with its risk appetite and/or the risk that the amounts of tax due are incorrectly calculated, provisioned for and/or paid.

The Board receives assurances from the Managing Director and the Chief Financial Officer ("CFO") twice yearly regarding the operation and effectiveness of the Company's internal controls (see the Corporate Governance Statement available on the website).

The Board has approved the overarching risk appetite of the Company and is assisted in its risk management activities by the Audit Committee. Coordination of risk management activities, including taxation risk, is done by the Chief Financial Officer, who reports to the Audit Committee on such matters.

The Risk Management Framework is reviewed by the Audit Committee on an annual basis, and such a review was carried out in the financial year. The framework has been developed to take into account the principles and guidelines outlined in AS/NZS ISO 31000: 2009 Risk Management – principles and guidelines. This approach involves establishing the context in which it operates, identifying the risks, analysing those risks, evaluating the risks, treating the risks where appropriate and monitoring, reviewing and reporting risks and the overall performance of the framework.

AICS as the provider of administrative and operational services to the Company has its own risk management processes and controls, including taxation risk and taxation policies and procedures. The efficacy of these internal controls is reported to the Company's Audit Committee via an ASAE 3150 report from the AICS internal auditor, Ernst & Young.

With regards to calculation of and provision for taxation, the Company notes the following controls that are in place to reduce the risk of material misstatement:

- Company's tax returns are prepared by external advisers (PricewaterhouseCoopers, who are also the Company's auditors).
- Company's provisions for tax payable are reviewed twice a year by the auditors as part of the annual and half-yearly audit and review. This includes franking credit balances and LIC gain accounts.
- Company's auditors perform a review, on a sample basis, of the Company's capital gains in the year to attest to the accuracy of the record-keeping with regards to the tax cost-base of securities sold, and thus the amount of Capital Gains Tax incurred.

3. Effective Company Tax Rates

Franked dividends that Djerriwarrh receives are not free from tax. Instead, the tax (at 30%) has already been paid on the profits from which these dividends are sourced.

Dividend imputation instead acts to ensure that these same profits are not taxed twice – by the company that paid the dividend to Djerriwarrh and then by Djerriwarrh itself or even three times – by the original paying company, by Djerriwarrh and then by the shareholder on receipt of a dividend from Djerriwarrh.

Including the imputation or franking credits, therefore, the effective tax rate would be as follows :

	2018 $'000
Profit for the year before tax	33,000
Franking credits received	8,481
Total tax expense for the year per P&L	1,555
Tax Expense including franking	10,036
Effective Tax Rate including franking	**30%**

This is equivalent to the prior year's figure, including franking credits, which was an effective tax rate of 30%.

As per the figures in Section 3. above :

	2018 $'000
Profit for the year before tax	33,000
Total tax expense for the year per P&L	1,555
Effective Tax Rate	**4.7%**

However, these figures do not include the tax that has already been paid on the dividends that the Company has received.

4. Total Taxes Paid Summary for the year ended 30 June 2018

As well as corporate income taxes paid, Djerriwarrh and its employees pay a number of other taxes.

Djerriwarrh's total tax contribution is summarised below :

	$'000
Tax Refund per Tax Return	-1,478
Tax paid in advance via PAYG (incl. July 2018)	4,611
Total corporate income tax paid	3,133
Tax pre-paid by companies that DJW invests in	9,738
Tax pre-paid by associated entity	128
Total corporate income tax borne by DJW	12,999
Irrecoverable GST incurred by DJW	153
PAYG on salaries withheld by DJW	292
Payroll tax incurred by DJW	9
Total tax contribution for the 2017-18 year	**13,453**

5. Reconciliation of Accounting Profit for the year ended 30 June 2018 to Taxes Payable at 30 June 2018

	2018 $'000
Profit for the year before tax	33,000
Nominal tax at 30%	9,900
Less : franking credits & foreign tax credits on dividends received	(8,543)
Less : over provision in 2017	(182)
Less : sundry items taxable (e.g. dividends receivable)	380
Total tax expense for the year per P&L	1,555
Add : Capital Gains Tax for Year on realised gains	22
Total tax charge 'incurred' for year including Capital Gains Tax	1,577
Less : PAYG tax for year already paid	(3,914)
Add : nominal tax credit on unrealised losses on open options positions	1,954
Less : tax on Associate entity	(130)
Add : minor items not taxable in current year (i.e. deferred tax)	45
Total tax refundable per Balance Sheet at 30 June 2018	(468)

6. Reconciliation of Taxes payable at 30 June 2018 to Taxes Paid for the 2017-18 year

	$'000
Tax Refundable as at 30 June 2018	**(468)**
Less : PAYG instalment subsequent	(698)
Less : Income deferred per trust annual tax statements received after year-end from trusts that the Company invests in	(177)
Less : minor post year-end adjustments, mainly from trusts	(135)
Tax refund per Tax Return for 2017-2018	**(1,478)**

Note that as disclosed in Section 3, the tax paid or payable above does not include the tax already paid on the dividends that the Company received.

7. Reconciliation of Accounting Profit for the Year Ended 30 June 2018 to Taxable Income

The accounting profit is not the same as taxable income due predominantly to the franking credits and foreign tax credits received, plus the adjustments to accounting income noted in Section 3.

	$'000
Accounting Profit before tax per 2018 Annual Report	33,000
Less Profit of Associate (taxed separately)	(428)
Accounting profit of DJW as taxable entity	32,572
Gains from investments on capital account	291
Unrealised loss on open options positions	6,515
Income taxable in future years	6,444
Income taxed in prior years	(6,389)
Minor items non-taxable	(287)
Franking credits received	12,205
Taxable income	**51,351**
Tax payable at 30%	15,405
Tax paid overseas	(67)
Tax pre-paid by companies Djerriwarrh invests in	(12,205)
Total tax paid or payable	**3,133**
Tax paid in advance	(4,611)
Tax refundable	**(1,478)**