



2010

Annual Review

Enhancing Income

D J E R R I W A R R H
I N V E S T M E N T S

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The Statutory Annual Report for 2010 is available on Djerriwarrh's website www.djerri.com.au or by contacting the Company on (03) 9650 9911.

About the Company

Djerriwarrh Investments is a listed investment company investing in Australian equities with a focus on stocks where there is an active options market. The Company uses exchange traded options to enhance income return to investors.

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

In this regard the primary goals of Djerriwarrh are:

- to pay an enhanced level of dividends; and
- to provide attractive total returns including capital growth over the medium to long term.

Summary of Results

Net Operating Profit

Net operating profit was \$43.7 million down from \$55.2 million over the previous corresponding period last year. This operating profit is made up primarily of dividends received from the investment portfolio, option income and revenue from the trading portfolio. It does not include realised gains on the sale of investments and is indicative of the income generated by the Company's portfolios. The decline was primarily as a result of the 31 per cent fall in dividends paid by the companies Djerriwarrh invests in.

Reported Profit for the Year

Reported profit for the year was \$25.0 million (last year \$30.7 million). Note last year's comparative figure has been restated from a loss of \$14.1 million following adoption of new accounting standards this year which changed the treatment of realised and unrealised gains and losses and impairment.

Earnings Per Share

Earnings per share based on net operating profit were 20.7 cents compared with 26.9 cents last year.

A Fully Franked Final Dividend

A fully franked final dividend of 16 cents per share was declared, bringing total dividends for the year to 26 cents per share fully franked. This is the same amount as last year.

Part of the final dividend is sourced from pre tax listed investment company capital gains of 8.6 cents per share (last year 5.7 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

The Dividend Reinvestment Plan

The Dividend Reinvestment Plan for the final dividend was maintained with a discount of 5 per cent.

Total Portfolio Return

Total portfolio return after tax and management fees over the year to 30 June 2010 (change in net asset backing per share plus dividends reinvested) was an increase of 11.9 per cent whereas the S&P/ASX 200 Accumulation Index rose 13.1 per cent over the same period. Including the benefit of franking credits from the dividends paid by Djerriwarrh the portfolio return was an increase of 15.2 per cent whereas the Index returned 14.6 per cent.

Total Shareholder Return

Total shareholder return measured by change in share price plus dividends over the 12 month period was 10.4 per cent.

Management Expense Ratio

Management expense ratio on an annualised basis was 0.36 per cent.

Net Asset Backing at 30 June 2010

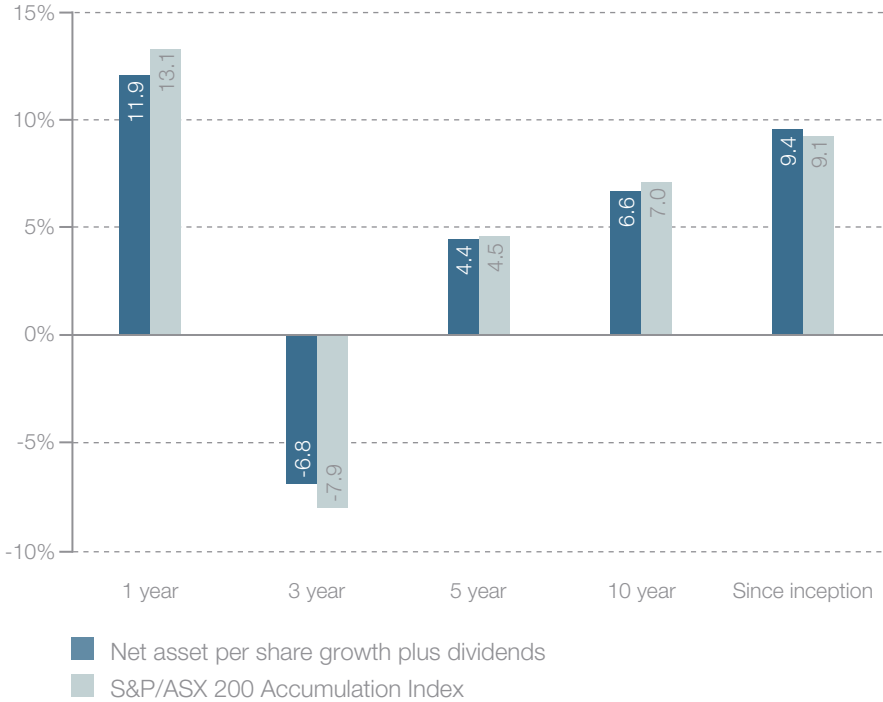
Net asset backing at 30 June 2010 was \$3.49 per share (before providing for the 16 cent final dividend). At 30 June 2009 the net asset backing was \$3.34 per share (before providing for the 16 cent final dividend).

Summary of Results continued

Earnings Per Share v Dividends Per Share



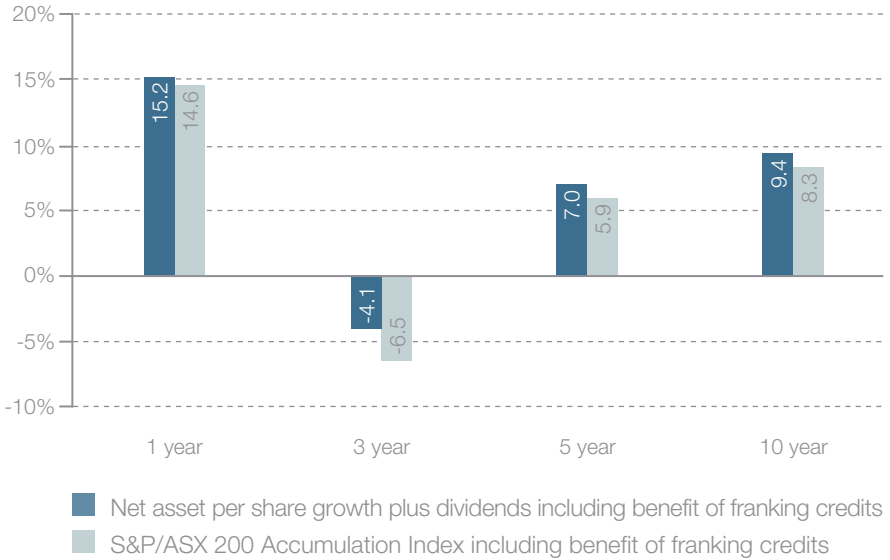
Portfolio Performance to 30 June 2010



Note: Djerriwarrh net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits attached to the dividends. It should be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.

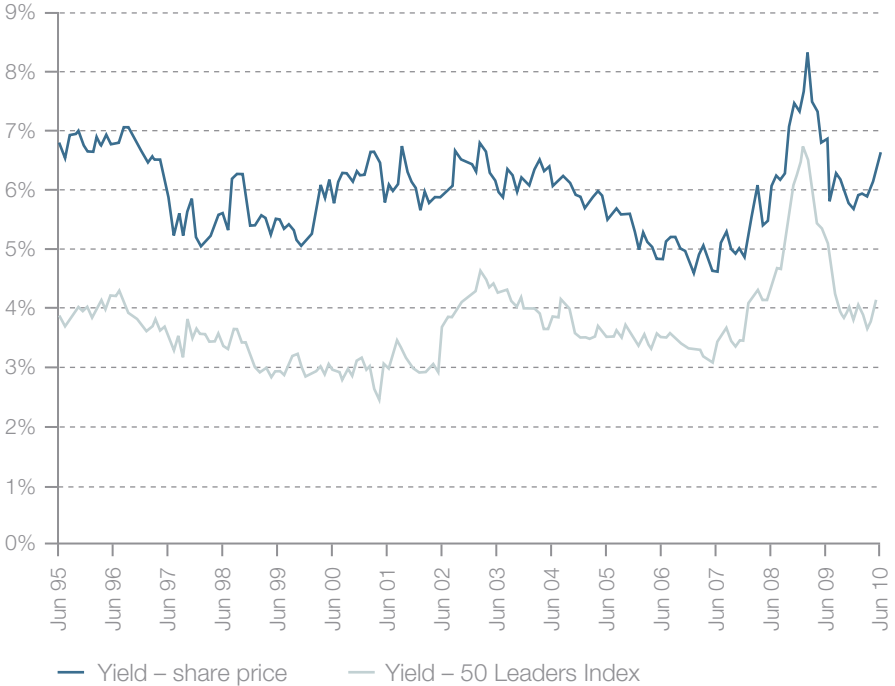
Summary of Results continued

Portfolio Performance to 30 June 2010 Including Benefit of Franking Credits



The chart above does not include the benefit of any LIC capital gain distributions made.

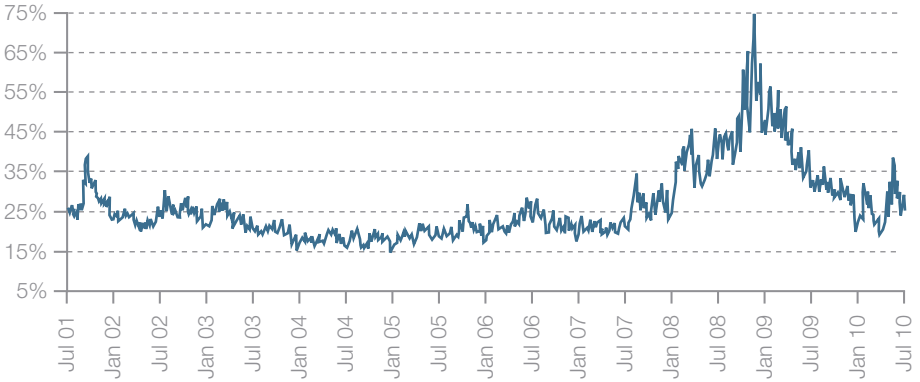
Djerriwarrh Yield v Market Yield



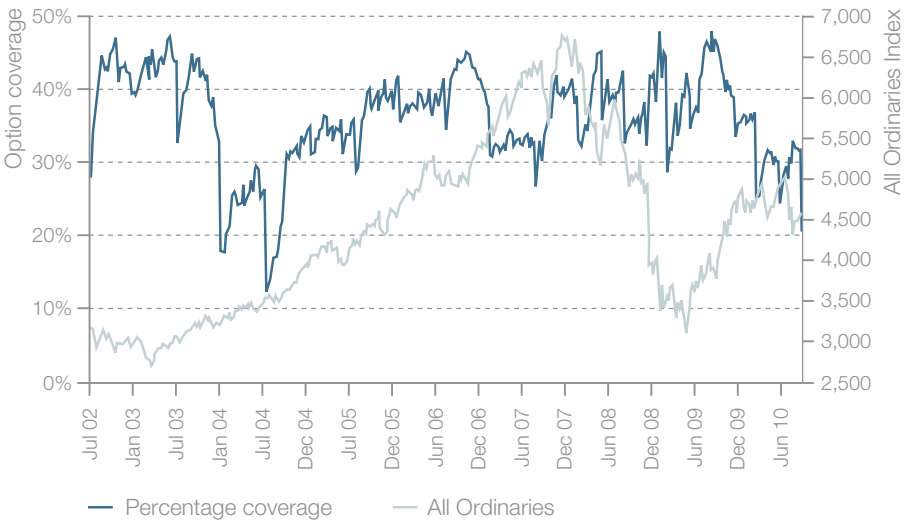
The chart above highlights the relative dividend yield on Djerriwarrh shares (which is fully franked) in comparison to the dividend yield on the S&P/ASX 50 Leaders Index (which is only 76 per cent franked) since the Company was listed.

Summary of Results continued

Market Implied Volatility of Call Options



Option Coverage of the Portfolio v Movements in the All Ordinaries Index



Review of Operations

Profit Performance and Dividends

Net operating profit, which measures the underlying income generated from the investment and trading portfolios, was \$43.7 million down from \$55.2 million over the corresponding period last year.

Dividends received remained subdued following on from the significant cuts made during the global financial crisis in the previous financial year. Income from investments which is driven by dividends and distributions received in the investment portfolio was \$32.3 million, down \$14.5 million or 31.0 per cent over the corresponding period last year. The size of the fall also reflects the absence of any share buy-backs this year, such as the Santos share buy-back in which Djerriwarrh participated in early October 2008 which contributed \$4.1 million of income.

Income from option activity was also down from the extremely strong levels generated last year as volatility levels declined. Total income from dealing in securities and derivatives which includes the revenue outcomes from the Company's option writing activities and the net gains in the trading portfolio was \$19.7 million compared with \$24.8 million last year.

Reported profit for the year was \$25.0 million compared with a profit of \$30.7 million last year. Note last year's comparative figure has been restated from a loss of \$14.1 million following adoption of new accounting standards this year dealing with amongst other things the treatment of realised gains and losses.

Djerriwarrh's final dividend has been maintained at 16 cents per share bringing total dividends for the year to 26 cents per share. Shareholders should note part of the final dividend is sourced from pre tax listed investment company capital gains of 8.6 cents per share (last year 5.7 cents per share). Certain shareholders may be able to claim some of this amount as a tax deduction.

As mentioned, one of the challenges the Company faced this year was the significant decline in dividends received. As a result Djerriwarrh has drawn on its reserves to partially fund total dividends for the year. The position of drawing on reserves for fully franked dividends is not one that is sustainable over the long term. Whilst some recovery in dividends is expected in the near term, the performance of the Company's option writing activity, and to a lesser extent the trading portfolio, will have an important bearing on future income performance and the generation of sufficient franking credits to maintain current dividend levels.

Review of Operations continued

Investment Portfolio

The market produced solid returns over the year despite the negative impact of heightened risk aversion during the closing stages of the financial year. The Company's portfolio return which includes the benefit of dividends paid was positive 11.9 per cent over the year which was slightly below the rise of 13.1 per cent in the general market over the period.

Grossing up for the positive impact of the enhanced level of franking credits generated from its investment activity, Djerriwarrh's portfolio return for the year is 15.2 per cent compared to the grossed up benchmark return of 14.6 per cent. Over a 10 year period these figures are positive 9.4 per cent for Djerriwarrh and 8.3 per cent for the Index.

Major sales through the year were predominantly as a result of the exercise of call options. In particular the strongly rising market in the first half of the year led to call option positions being exercised across a number of holdings, the largest being Commonwealth Bank, National Australia Bank, Westpac, ANZ, Rio Tinto and Wesfarmers. However, as the share prices of some of these companies fell during the second half of the financial year selected holdings were replenished. Other purchases through the year included Australian Infrastructure Fund, Hastings Diversified

Utilities Fund, Perpetual, QBE Insurance, Transurban, Wesfarmers and Woodside Petroleum.

Djerriwarrh exited its small holdings in Fairfax Media, GWA International and Viridis Clean Energy during the period.

The more cautious market sentiment and uplift in volatility allowed Djerriwarrh to replace a number of option positions that were close to being exercised toward the end of the financial year. During the year the remaining Convertible Notes were redeemed or converted to shares which reduced the Company's overall level of debt from the previous financial year. However given Djerriwarrh is close to fully invested the Company recently drew down its debt facility by \$50 million to take advantage of higher volatility and more attractive valuations.

Trading Portfolio

The trading portfolio was reactivated during the year although it operated at very low levels and was only utilised for very specific opportunities. This portfolio generated \$1.4 million of profit this year which is in line with last year's contribution. At 30 June 2010 the major holdings in this portfolio were Oil Search, Telstra and Westfield.

Outlook

The following chart of the All Ordinaries Price Index measures the share price return of the Australian market since

1936. It shows a compound average return over this period of approximately 7 per cent per annum in price terms.

Whilst the market is trading below its long term average we remain cautious given the concerns about the future impact of high government debt levels globally and the expectations of a strong recovery in company earnings that are currently built into the market. In this environment we may even see heightened option volatility over the medium term which would benefit Djerriwarrh's option activities.

At year end the level of portfolio option coverage at 23 per cent was low compared to previous years. As a result, the Company will seek to increase this to higher levels as market conditions allow. However this will be very dependent on a number of factors including prevailing option volatility and the overall return available. In particular this activity will need to be balanced against writing options with too low an exercise price which may give up too much of the potential upside in any capital appreciation that may occur.

All Ordinaries Price Index – Long Term Performance



Note: A semi log scale has been used to better show a comparison of the relative size of the percentage changes over the period.

Review of Operations continued

Directorship Matters

As advised to the Australian Securities Exchange on 17 May 2010, Ms Alice Williams was appointed as a Director of the Company on that date.

Alice is a Director of Equity Trustees Limited, Defence Health, Guild Group Ltd and Victorian Funds Management Corporation. She is also a Council Member of The Cancer Council of Victoria.

Prior to undertaking her Non-Executive Director roles her primary business experience was in the financial services sector in senior management positions with a number of Australian and international investment banks including NM Rothschild and Sons (Australia) Limited, JP Morgan Australia, Hong Kong Bank of Australia Limited and Citibank (NA). She is also a Chartered Financial Analyst.

Alice has previously served as a Director of Airservices Australia, State Trustees, Western Health, Australian Accounting Standards Board, Telstra Sale Company, V/Line Passenger Corporation and Commissioner of the Victorian Competition and Efficiency Commission. She has also acted in a number of consulting roles to corporate, government and not-for-profit

organisations specialising in the issues of strategic and business planning, debt restructuring, equity raising and corporate governance.

Alice brings to the Board a wealth of experience in financial markets as well as other industries in which she has acted as a consultant or in a Non-Executive Director capacity. We welcome her to the Board and look forward to the significant contribution that she will make to the Company's activities.

Top Investments

As at 30 June 2010

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2010

	Total Value \$ Million
1 BHP Billiton*	94.4
2 Westpac Banking Corporation*	65.5
3 Commonwealth Bank of Australia*	44.1
4 Telstra Corporation	43.1
5 National Australia Bank*	40.9
6 Woodside Petroleum*	38.4
7 Australia and New Zealand Banking Group*	33.2
8 Oil Search*	28.7
9 Santos*	21.2
10 QBE Insurance Group*	20.3
11 Woolworths*	19.8
12 Rio Tinto*	19.7
13 AMP*	18.5
14 Transurban Group*	16.9
15 Brambles*	16.0
16 Hastings Diversified Utilities Fund	14.9
17 West Australian Newspapers Holdings	14.7
18 AXA Asia Pacific Holdings	14.0
19 Origin Energy*	13.9
20 Wesfarmers*(a)	12.2
Total	590.3

As a percentage of total portfolio value (excludes cash) 82.0%

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

(a) Includes \$3.8 million of WESN partially protected securities.

Income Statement

For the Year Ended 30 June 2010

	2010 \$'000	2009 \$'000
Dividends and distributions	32,330	46,833
Revenue from deposits and bank bills	1,687	1,245
Other revenue	93	23
Total revenue	34,110	48,101
Net gains/(losses) on trading portfolio	1,449	1,497
Income from options written portfolio	18,232	23,322
Income from operating activities	53,791	72,920
Finance costs	(3,734)	(6,927)
Administration expenses	(2,898)	(2,868)
Operating profit before income tax	47,159	63,125
Income tax	(3,460)	(7,912)
Net operating profit	43,699	55,213
Net capital gains/(losses) on investments		
Net losses on ordinary securities sold from the investment portfolio	(11,050)	(35,075)
'Impairment' charge	-	(3,247)
Net gains/(losses) on open options positions	(1,157)	10,542
Net gains/(losses) on 'puttable instruments'	3,101	(3,723)
Tax (expense)/credit on above	(9,593)	7,024
	(18,699)	(24,479)
Profit/(loss) for the year	25,000	30,734
	Cents	Cents
Net operating profit per share	20.74	26.86
Profit/(loss) for the year per share	11.86	14.95

Balance Sheet

As at 30 June 2010

	2010 \$'000	2009 \$'000
Current assets		
Cash	69,706	57,905
Receivables	6,459	6,228
Trading portfolio	10,497	-
Total current assets	86,662	64,133
Non-current assets		
Investment portfolio	712,993	730,165
Shares in associate	465	274
Deferred tax assets	1,214	12,230
Total non-current assets	714,672	742,669
Total assets	801,334	806,802
Current liabilities		
Payables	2,563	8,719
Tax payable	4,794	4,286
Borrowings – cash advance facilities	50,000	60,000
Borrowings – convertible notes	-	32,002
Interest rate hedging contracts	324	279
Options written portfolio	3,235	12,678
Total current liabilities	60,916	117,964
Non-current liabilities		
Deferred tax liabilities – investment portfolio	14,202	11,162
Total non-current liabilities	14,202	11,162
Total liabilities	75,118	129,126
Net assets	726,216	677,676
Shareholders' equity		
Share capital	611,436	587,649
Revaluation reserve	4,045	(58,767)
Impairment revaluation charge reserve	-	(2,273)
Realised capital gains reserve	49,360	86,600
Retained profits	61,699	64,746
Interest rate hedging reserve	(324)	(279)
Total shareholders' equity	726,216	677,676

Statement of Changes in Equity

For the Year Ended 30 June 2010

	2010 \$'000	2009 \$'000
Total equity at the beginning of the year	677,676	809,292
Dividends paid	(54,192)	(53,196)
Shares issued		
- Dividend Reinvestment Plan	8,045	7,674
- Exercise of convertible notes	15,752	752
On-market share buy-backs	-	(11)
Cost of share issue	(10)	(9)
Total transactions with shareholders	(30,405)	(44,790)
Revaluation of investment portfolio	61,775	(166,826)
Provision for tax on unrealised gains/losses	(1,134)	50,589
Net unrealised gains/(losses) on investment portfolio	60,641	(116,237)
Net movement in fair-value for interest rate swaps	(45)	(1,323)
Net capital gains/(losses) for the year recorded through profit or loss (e.g. puttable instruments, options)	(18,699)	(24,479)
Net realised capital losses not recorded through profit	(6,651)	-
Operating profit for the year	43,699	55,213
Total equity at the end of the financial year	726,216	677,676

Holdings of Securities

As at 30 June 2010

Details of the Company's portfolios are given below. The list should not be used to evaluate portfolio performance or to determine the net asset backing per share (which is advised to the Australian Securities Exchange each month and recorded on the toll free telephone service at 1800 780 784).

Individual holdings in the portfolios may change significantly during the course of the year. In addition, holdings may be subject to call options or sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Unless otherwise stated, the securities in this list are fully paid.

		Number	Number	Market
		Shares Held	Shares Held	Value
		2009	2010	2010
		'000	'000	\$'000
Ordinary Shares and Trust Units				
AGK*	AGL Energy	527	527	7,696
AIX	Australian Infrastructure Fund	2,777	4,649	7,904
AMC*	Amcor	1,822	1,905	11,897
AMH	AMCIL	12,257	10,257	6,360
AMP*	AMP	3,565	3,546	18,472
ANZ*	Australia and New Zealand Banking Group	2,140	1,554	33,204
APN	APN News & Media	1,919	1,919	3,810
AWC*	Alumina	3,918	3,918	5,936
AXA	AXA Asia Pacific Holdings	3,164	2,564	14,024
BHP*	BHP Billiton	2,500	2,515	94,434
BLD*	Boral	1,001	951	4,581
BSL	BlueScope Steel	102	102	214
BXB*	Brambles	2,886	2,936	16,006
CBA*	Commonwealth Bank of Australia	1,476	910	44,083
CCL*	Coca-Cola Amatil	1,164	987	11,556
CNX	Carbon Energy	970	970	340
CPU*	Computershare	1,237	812	8,584
CSR	CSR	939	939	1,578
ESG	Eastern Star Gas	2,000	2,000	1,650
FGL*	Foster's Group	1,350	1,550	8,677

Holdings of Securities continued

As at 30 June 2010

		Number Shares Held 2009 '000	Number Shares Held 2010 '000	Market Value 2010 \$'000
Ordinary Shares and Trust Units				
HDF	Hastings Diversified Utilities Fund	4,304	11,696	14,853
HXL	Hexima	280	280	62
IAG	Insurance Australia Group	1,777	2,152	7,339
IPL*	Incitec Pivot	800	670	1,824
MIR	Mirrabooka Investments	4,607	4,607	7,809
MTS	Metcash	1,050	1,050	4,400
NAB*	National Australia Bank	2,558	1,759	40,859
ORG*	Origin Energy	858	933	13,861
ORI*	Orica	138	88	2,205
OSH*	Oil Search	4,506	5,217	28,705
OST	OneSteel	2,261	1,148	3,422
PMV	Premier Investments	838	838	5,110
PNA	PanAust	3,646	3,646	1,805
PPC	Peet	1,696	1,696	3,579
PPT*	Perpetual	0	102	2,866
QBE*	QBE Insurance Group	989	1,117	20,307
RIO*	Rio Tinto	332	307	19,696
STO*	Santos	1,604	1,689	21,197
TCL*	Transurban Group	2,842	3,989	16,868
TLS	Telstra Corporation	12,864	13,264	43,109
TOL*	Toll Holdings	798	862	4,706
WAN	West Australian Newspapers Holdings	2,600	2,250	14,715
WBC*	Westpac Banking Corporation	3,904	3,094	65,459
WDC*	Westfield Group	0	340	4,081
WES*	Wesfarmers	462	298	8,411
WESN	Wesfarmers Partially Protected Shares	131	131	3,759
WOW*	Woolworths	718	738	19,825
WPL*	Woodside Petroleum	841	922	38,418
Total				720,255

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

Major Transactions in the Investment Portfolio

Acquisitions (Above \$5 Million)	Total Cost \$'000
Australia and New Zealand Banking Group	12,395
Commonwealth Bank of Australia	8,410
Hastings Diversified Utilities Fund	6,652
Transurban Group	5,036

Disposals (Above \$5 Million)	Total Proceeds \$'000
Commonwealth Bank of Australia	27,415
National Australia Bank	20,863
Australia and New Zealand Banking Group	20,853
Westpac Banking Corporation	20,522
Rio Tinto	10,608
Wesfarmers	6,051

Note: All of these disposals were as a result of the exercise of call options.

Company Particulars

Djerriwarrh Investments Limited
ABN 38 006 862 693

Directors

Bruce B Teele, Chairman
Ross E Barker, Managing Director
Peter C Barnett
Terrence A Campbell AO
Andrew F Guy
Graham J Kraehe AO
John Paterson, Deputy Chairman
Alice JM Williams

Company Secretaries

Simon M Pordage
Andrew JB Porter

Auditor

PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation

Australia

Registered Office

Level 21, 101 Collins Street
Melbourne Victoria 3000

Mail Address

GPO Box 2114
Melbourne Victoria 3001

Contact Details

Telephone (03) 9650 9911
Facsimile (03) 9650 9100
Email invest@djjerri.com.au
Website www.djerri.com.au

For enquiries regarding net asset backing
(as advised each month to the Australian
Securities Exchange):

Telephone 1800 780 784 (toll free)

Share Registrar

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Shareholder

Enquiry Lines 1300 653 915
+61 3 9415 4190 (from overseas)
Facsimile (03) 9473 2500
Email web.queries@computershare.com.au
Website www.computershare.com.au

Securities Exchange Code

DJW Ordinary shares

Shareholder Meetings

Annual General Meeting

Time 10.00am
Date Tuesday 5 October 2010
Venue Hilton on the Park
Location 192 Wellington Parade
East Melbourne

Sydney Shareholder Meeting

Time 2.30pm
Date Monday 11 October 2010
Venue Four Seasons Hotel
Location 199 George Street
Sydney

Adelaide Shareholder Meeting

Time 2.30pm
Date Monday 18 October 2010
Venue Adelaide Festival Centre
Location King William Road
Adelaide

