

DAIRY FARMERS MILK CO-OPERATIVE ANNUAL REPORT 2015

YEAR ENDED 30 JUNE 2015
ARBN: 108 690 384



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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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SYDNEY NSW 2000

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Dairy Farmers Milk Co-operative Limited (DFMC) is a Co-operative incorporated and domiciled in Australia.

CHAIRMAN

Duncan McInnes

DIRECTORS

John Bastian

Andrew Burnett

John Bywater

Steven Downes

James Geraghty

Richard Gladigau

Grant Sherborne

Scott Sieben (Resigned Sept 2014)

Cameron Hodge (Appointed Nov 2014)

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Grant Thornton Audit Pty Ltd

SOLICITORS

Addisons Lawyers

EXECUTIVE OFFICER & SECRETARY

Greg Griffith



Chairman's Report

To my fellow supplying members of Dairy Farmers Milk Co-Operative (DFMC).

As expected the past twelve months have seen another change in milk supply with milk transferring with and/or to other processors in New South Wales and South East Queensland in line with the home brand contract lost by Lion Dairy and Drinks (LDD).

Our total milk production for the year was 271 million litres, a drop of 248 million litres on 2013/2014.

The outlook for production in most regions is positive as there is more milk needed by LDD moving forward to the tune of 20-30 million litres in each region apart from North Queensland where production at present aligns with sales. The fact that extra milk is needed in the other regions is a great signal for our suppliers. It gives them the opportunity to grow if they want to as well as the opportunity to attract new suppliers to our Co-operative.

It has been a reasonable year financially with a total comprehensive income for the year attributable to members of the Co-operative showing total comprehensive income of \$723,000 with a focus on curtailing costs where possible. The solid performance of our share portfolio adds to the financial position. The statement of financial position shows a total equity position of \$15,716,000 with the payout of a large number of exiting members having an impact on the position.

Over the coming months we will start negotiations with LDD regarding extending our Milk Supply Agreement as the current arrangement ceases in four years' time. This is an important period for us as it will allow our business to secure its long term future. I believe it is in the best interests of both organisations that we commit to a long term agreement to build confidence for both parties moving forward. The starting point is that LDD needs our milk and we need a market for our milk and it makes sense that we work together to ensure that happens in mutually beneficial way.

In the last two years the Board has been focused on reducing the asset backing per share by encouraging members to reinvest their dividends. During the past twelve months, \$141,000 out of a total \$579,000 declared dividend were reinvested. It is also the Board's intention this year to pay a rebate on business done and we encourage members to reinvest this rebate into shares as another way to reduce the asset backing per share.

During the year DFMC and Australian Dairy Farmers Co-Operative (ADFC) became separate entities with all DFMC directors resigning in June 2015 from their board positions on ADFC. This separation allows for each Co-operative to be truly independent in their dealings with processors. A lot of time and thought was put into the creation of ADFC with the main driver being a home for milk that LDD did not require. This objective was achieved, and with the landscape changing it was felt that it was time to separate the ownership of the two Co-operatives. If the need ever arose in the future we could always start a second Co-operative again.

In July, our Ward Representative Advisory Committee (WRAC) met for a two day strategic planning workshop with the board in Brisbane to help outline the key drivers regarding our upcoming discussions with LDD around negotiations on a new Milk Supply Agreement. I would like to thank our WRAC members for their involvement in the Co-operative during the past year.

We thank LDD for a fruitful working relationship during the year from the CEO Peter West down through his other staff. It is pleasing to see their business turn the corner and improve market share in key areas. Unfortunately "one dollar a litre milk" appears to be here for some time yet and that impacts on LDD profitability which is not in our farmers best interest.

To my fellow board members I wish to acknowledge and thank you for the work and commitment that you have made during the previous twelve months. Your efforts are not just restricted to the board table as you readily make yourselves available to members at meetings and via phone.

This year marks the end of John Bastian's tenure as he has announced his retirement as an independent director for our Co-operative. John has been a director since the inception of DFMC and he has brought a wealth of experience and knowledge to the board table during the past eleven years. On behalf of all shareholders I thank him very much for his commitment.

As part of our corporate governance, DFMC has conducted a review of the numbers of directors it needs to manage the affairs of the Co-operative. The outcome of that review will see DFMC reduce the number of Independent directors from two back to one. John Bywater is the other current Independent Director and I am pleased to announce that the Board endorses Mr Bywater to continue representing DFMC for an additional 4 years as our independent, as his current term is set to expire in November of this year. Appropriate postal ballot papers will be forwarded to members as per the rule of the Co-operative.

To our executive officer Greg Griffith and his staff, I thank them all for their time and effort in fulfilling their various roles in a competent and professional manner.

Yours sincerely,

Duncan McInnes
Chairman
Dairy Farmers Milk Co-operative



Executive Officers Report

The 2014/15 season was a challenging one for DFMC as milk production in all regions (except Far North Queensland (FNQ)) did not keep pace with the commercial requirements of Lion Dairy and Drinks (LDD).

For the Northern regions; FNQ's production was in line with the regions Anticipated Full Demand (AFD) with an annual production of 52m litres, however in South East Queensland (SEQ) and New South Wales (NSW) we saw the biggest decline in milk production with the combined loss of 140m litres. Whilst DFMC milk production from the 2013/14 season was above the regions AFD, the vast movement of milk to our competitors meant that DFMC dropped below its commercial requirement to LDD by a combined 113m litres.

South Australia's (SA) milk production was reasonably static from the year prior with milk production down by 3m litres; however, the trend in milk loss continued in North Victoria/Riverina (Nth Vic/Riv) and West Victoria (West Vic) with both regions experiencing a combined loss of 136m litres.

Overall, DFMC total milk production was 271m litres compared to 507m litres from the previous year.

A number of factors contributed to this decline. Chief among them in SEQ and NSW was the Coles retail contract being awarded to Norco (in SEQ), and new entrant Murray Goulburn (in NSW). With a reduction in the regional AFD and with the fear of T2 milk still hanging over DFMC's head, DFMC lost many suppliers to those two entities.

For the Southern Regions (including Nth Vic/Riv, West Vic and SA), DFMC opened with a very strong milk price which was underpinned by the guarantee to be ahead of Murray Goulburn on the variable price option and an option to fix a price for one to three years. In Nth Vic/Riv a very strong opening price by a niche player attracted the majority of milk that we lost. In West Vic, farmers were not offered an individual allocation due to LDD changing commercial needs, although all the milk was required and T1 contracts offered, the opportunity for those farmers in that region to switch to a then DFMC related party was too great, and all but two farmers departed. In SA, DFMC lost one farm to a competitor and two to retirement, but as mentioned above, milk production for the region of SA was fairly static.

MILK PRICE

In all DFMC regions, farmers experienced an increase in the milk prices. Overall, the total price payable across all regions increased by 8.30% from the year prior, which represents an average total milk price across all regions of 52.96cpl.

A number of factors contributed to this increase including base price increases of 5cpl to suppliers in FNQ, 2.96cpl increase in SEQ and a 2.85cpl increase in NSW. Suppliers in the Southern Regions also experienced an increase in the total price payable with an average increase across the variable and fixed options of approx. 6%.

FINANCIAL PERFORMANCE

DFMC had a continuing operating profit before income tax and dividend payments of \$1,602,000. This is an increase of \$1,082,000 from the previous year. Whilst DFMC experienced a decrease in operating revenue due to reduced interest earnings and dividends received, the DFMC Board decided to write a provision back into income which contributed to the operating profit.

DFMC share portfolio at the start of the financial year was \$9.6m vs. a closing value as at 30th June 2015 of \$9.5m. Members should note that DFMC realised some financial gains with a net withdrawal of \$500k based on the sale of some shares. Overall the portfolio performance was +3.09% compared to the S&P ASX 200 Index of +1.17%.

DFMC continued to provide members with a dividend payable on capital. For the 2014/15 financial year, members received a 12 cent, 50% franked dividend which equated to a total payment of \$579,000.

FARMER BENEFITS

Co-operatives are more inclusive than a private company. We are an autonomous association of Dairy Farmers united to meet the needs and aspirations of our members through a jointly-owned and democratically-controlled enterprise. At DFMC you are represented by a committed and experienced team of like-minded dairy farmers, thus providing you with a seat at the negotiation table. In all regions, DFMC guarantees the milk off-take for all your milk paid at a T1 competitive price underpinned by long-term, secure milk agreements with LDD.

With the assistance of LDD, in 2014/15 DFMC continued to offer the refrigeration and generator support scheme and for the first time provided financial loans to farmers in drought and disaster-declared areas. DFMC also had a community focus by financially contributing to regional hubs via way of sponsorship and support for country shows.

PARTNERSHIPS/SUPPLIERS

DFMC is proud to be aligned to LDD who produce, market and distribute some of Australia's most iconic brands in milk, dairy beverages, cheese and yoghurts. DFMC values the partnership and close working relationship that that we have with LDD's key personnel which is led by its Managing Director, Peter West.

OPERATIONAL ISSUES

During the financial year, DFMC became aware of some allegedly irregular transactions involving a former employee of DFMC. The transactions are currently being investigated and are likely to result in legal proceedings against the former employee. DFMC has come to a confidential settlement with LDD based on the employee being DFMC's and the matter taking place in Lion's accounting systems.

NEXT FINANCIAL YEAR

Planning for 2015/16 Financial Year is well underway. DFMC and LDD have already released very competitive milk pricing which should provide our members with a sense of security and stability as the Global Dairy Trade Index continues to tumble. This will no doubt place pressure on farmgate milk price for those dairy farmers linked to non-domestic processors.

DFMC is also well underway in gaining a greater understanding as to the needs and expectations of our farmers, with over 40% of suppliers having completed a recent online survey. Our goal is to better plan for the future, to provide suppliers with a long-term vision and to allow them to structure their business for success based on a deep and rich knowledge of the potential opportunities for growth underpinned by a program of support by DFMC.

In addition, the survey information will provide the Board with a detailed understating of members needs and desires in relation to belonging to a Co-operative, along with the key essentials in relation to the Milk Supply Agreement (MSA) between DFMC and LDD.

The survey data will also be used by DFMC's Board, Management and 15 members from the Ward Representative Advisory Council (WRAC) who will be meeting in Brisbane in July 2015 to plan and develop the Co-operative five year's strategic plan. The first workshop will form part of 3 different workshops in the preparation and finalisation of such an important plan. DFMC will share our five year plan and key strategies for success in the latter half of the financial year.

As most members are aware, the current MSA is due to expire in 2019. DFMC and LDD are due to begin negotiations in October 2015, with a view that an outcome is reached by the end of the financial 2016. DFMC will keep members well-informed of developments and seek feedback along the journey.

ACKNOWLEDGEMENTS

DFMC works with a large number of stakeholders to whom we are indebted for their contribution and support.

I wish to acknowledge DFMC Chairman Duncan McInnes and his fellow board members for their dedication and willingness to provide clear advice and direction to management and staff. It is greatly valued and appreciated.

To my operational team of Tony Burnett, Andrew Cleland, Edith Nicholls, Chris Clarke and our newly appointed Communication Manager Caroline Tunnell-Jones, I thank you for your dedication and commitment to consistently delivering on our objectives and dealing with the many challenges placed before you along the way.

To the Lion Dairy and Drinks team that supports DFMC back of house operations, I would like to express my sincere gratitude for the work you do in support of our farmers. Particular mention to the Milk Payments and Finance team for their dedication and drive when working in a cross-functional environment.

To the WRAC members who come together twice a year to provide feedback regarding the issues that the Co-operative faces, I thank you for your valuable input and contribution in helping to shape DFMC for the future.

Finally to our members, I thank you for the role you play by delivering a quality food everyday thus ensuring DFMC remains a Co-operative of which we can be proud. You are the reason why we exist.

Yours sincerely,



Greg Griffith
Executive Officer
Dairy Farmers Milk Co-operative

Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2015.

DIRECTORS

The following persons were directors during the financial year and up to the date of this report:

- Duncan McInnes (Chairman)
- John Bastian
- Andrew Burnett
- John Bywater
- Steven Downes
- James Geraghty
- Richard Gladigau
- Grant Sherborne
- Scott Sieben (Retired Sept 2014)
- Cameron Hodge (Appointed Nov 2014)

PRINCIPAL ACTIVITIES

DFMC is governed by the Co-operatives (Adoption of National Law) Act 2012 and is domiciled in Australia.

There were no significant changes in the nature of DFMC's activities during the year.

REVIEW OF RESULTS AND OPERATIONS

Profit from continuing operations after income tax before member distributions of \$1.364 million (2014: \$0.589 million).

A review of operations is contained in the Chairman's Report within this Annual Report.

DIVIDENDS

Dividend information is included in note 5 of the financial report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes to the state of affairs during the 2014-15 financial year.

SUBSEQUENT EVENTS

Lion Dairy & Drinks (LDD) has increased their commercial milk requirements for DFMC which will see an increase in the commercial requirements of Milk for LDD in 2015/16 financial year.

In addition the Board of DFMC plans to commence civil action in the Supreme Court in relation to fraudulent activities that were undertaken by a past employee.

Apart from the above, there are no other matters or circumstance that have arisen since the end of the financial year that have significantly affect the operations of the Co-operative, the results of those operations, or the state of affairs of the Co-operative in future financial years

FUTURE DEVELOPMENTS

The Co-operative expects to continue operating as an ongoing entity with a sustainable capital base and hence there are no likely developments in the Co-operatives operations.

ENVIRONMENTAL PERFORMANCE

By virtue of the *Milk Supply Agreement*, whereby milk purchased from farmer members is simultaneously on-sold to Dairy Farmers Limited, the Co-operative is not subject to any environmental legislation of significance.

DIRECTOR INFORMATION (Sitting Directors)

Duncan McInnes – Chairman

Duncan McInnes was appointed to the DFMC Board in 2004, and was elected Chairman in 2013.

He first bought part of the family farm at Harrisville at the age of 19. Today, along with his wife, two brothers and their families, the dairy at Harrisville now produces 4 million litres of milk annually.

Duncan has extensive management experience, previously serving on a number of boards including Australian Co-operative Foods. He has also held elected positions within the Queensland Dairyfarmers' Organisation and has represented the industry at local, state and national levels.

He is also a Councillor with the Royal National Association and a Councillor for Scenic Rim Regional Council.

John Bastian

John Bastian joined the DFMC Board in September 2004 bringing with him extensive experience in business and management consulting.

John worked for Sola Optical for 15 years and saw it transition from a small company in Adelaide to a major international business listed on the New York Stock Exchange.

John has served on a variety of boards in the agribusiness sector including grain, wine, agricultural engineering and meat businesses.

He was the Business Review Weekly's Business Leader of the Year in 1990 and has a Bachelor of Business from the University of South Australia.

Andrew Burnett

Andrew Burnett was elected to the Board in 2011 and is currently the Chair of the Member Services and Milk Supply Committee.

He has an Associate Diploma in Applied Science and has completed the Rabobank Executive Development Program for primary producers.

Andrew has previously worked in the cotton industry and now runs a farm in Gympie in South East Queensland with his wife, Fiona, and their two sons. Their dairy business produces around 2.3 million litres of milk from 350 cows.

John Bywater

John Bywater became a Director of the DFMC Board in 2011 having spent more than 20 years in supply management in the dairy industry.

John previously worked for Dairy Farmers Limited and then National Foods when it bought Dairy Farmers in 2008. Following the sale, he worked in a transition role to integrate the milk supply bases and dairy supplier services of both organisations. He has also worked for the Queensland Department of Primary Industries.

He holds a Bachelor of Business (Rural Management) from the University of Queensland and a Post Graduate Diploma in Information Processing from the University of Southern Queensland.

Steven Downes

Steven Downes was appointed to the DFMC board in November 2013.

Steven is a fourth generation dairy farmer at Jamberoo on the South Coast of New South Wales and is currently building his herd of 120 milkers. Before taking over his family's dairy business in 2010, he worked at Macquarie Bank and National Australia Bank where he specialised in currency markets and agribusiness.

He has a Bachelor of Science in Agriculture from the University of Sydney and is currently undertaking an Advanced Diploma in Agribusiness Management from the National Centre for Dairy Education Australia.

James Geraghty

James Geraghty has been a member of the DFMC Board since 2009, and works with his wife Sari, on their dairy farm in Millaa Millaa on the Atherton Tablelands in Far North Queensland.

His family moved to the area from Lismore in 1932 and have been dairy farming since then. James purchased his farm with his parents in 1981. James and his wife currently milk 230 cows year round and have an annual production of 1.4 million litres a year.

James is the District Chairman and State Councillor for Far North Queensland for the Queensland Dairyfarmers' Organisation and has an Advanced Diploma in Agriculture.

Richard Gladigau

Richard Gladigau joined the DFMC Board in June 2013 and is the current Chair of the Milk Price and AFD Committee.

Richard is a fifth generation dairy farmer from Mount Torrens in the Adelaide Hills, South Australia. He grew up on his parents' dairy farm where he became a share farmer before buying his own dairy farm in 1993. He was a Dairy Farmers and then a DFMC ward representative from 1997 to 2013.

Richard is a board member of the South Australia Dairyfarmers' Association and is an active member in a number of local organisations including the Upper Torrens Land Management Project. He also holds a Certificate in Agriculture.

Grant Sherborne

Grant Sherborne was appointed to the DFMC board in November 2013.

His dairy, Willow Vale, is located at Burrawang in the Southern Highlands, New South Wales.

He has been involved in the day to day running of the farm since he left school. Grant is a passionate advocate for the industry and served as a DFMC ward representative for Southern Highlands from 2002 to 2013. He has been involved with the Cows Create Careers program and his local dairy industry group, DIG South Coast.

Grant has an Advanced Diploma of Agriculture and has also completed a director training course.

Cameron Hodge (Appointed November 2014)

Cameron was elected to the DFMC board in November 2014 and sits on the Member Services and Milk Supply Committee.

He has a diploma in irrigated agriculture and has completed the Australian Institute of Company Directors course. He is also chairman of his local hospital and a keen pilot.

Cameron his wife Ann and their three daughters run a pasture and grazing based 300 ha fully irrigated dairy farm at Leitchville in northern Victoria.

They currently produce around 3.2 million litres from 350 cows.

COMPANY SECRETARY

Greg Griffith joined DFMC as its inaugural Executive Officer in February 2009 and is responsible for the operations of the Co-operative, including the development and implementation of its strategic vision, in conjunction with the Board.

Before joining DFMC, Greg was the chief executive officer at Destination Melbourne Limited and held executive management positions at the Victorian Farmers Federation and Melbourne Football Club.

INDEMNIFICATION AND INSURANCE

During the financial year, the Co-operative paid a premium to insure past and present directors and officers. The insurance contract prohibits further disclosure.

In addition, pursuant to its Rules, the Co-operative has indemnified past and present directors and officers of the Co-operative. The indemnity covers legal and other costs incurred in defending certain civil or criminal proceedings that may be brought against the directors or officers while acting in that capacity.

MEETINGS OF DIRECTORS

The number of board and committee meetings held and attended by each director during the year was:

| | Board Meetings | | Audit, Finance and Governance | | Member Services and Milk Supply | | MILK PRICE AND AFD | |
|--------------------|----------------|----|-------------------------------|---|---------------------------------|---|--------------------|---|
| | A | B | A | B | A | B | A | B |
| Duncan A McInnes | 13 | 13 | 3 | 3 | 6 | 6 | 6 | 6 |
| John J Bastian | 13 | 13 | 2 | 3 | - | - | - | - |
| Andrew D R Burnett | 13 | 13 | - | - | 6 | 6 | 1 | 1 |
| John W Bywater | 13 | 13 | 3 | 3 | - | - | 4 | 6 |
| Steven Downes | 13 | 13 | 3 | 3 | 2 | 2 | - | - |
| James B Geraghty | 13 | 13 | - | - | 6 | 6 | 4 | 4 |
| Richard Gladigau | 13 | 13 | - | - | 2 | 2 | 5 | 6 |
| Grant Sherborne | 13 | 13 | - | - | 6 | 6 | 5 | 5 |
| Scott Sieben | 3 | 3 | - | - | 2 | 2 | - | - |
| Cameron Hodge | 7 | 7 | - | - | 4 | 4 | - | - |

Column A – The number of meetings attended.

Column B – Indicates the number of meetings the directors were eligible to attend.

In addition to formal board and committee meetings, the directors attended numerous other sub-committee and informal meetings relating to milk price negotiations, the development of DFMC's new supply model, monitoring DFMC's investments, industry meetings, corporate governance and communications meetings including ward meetings. The chairman of the board attends committee meetings by invitation.

PROCEEDINGS ON BEHALF OF THE ENTITY

No person has applied for leave of court to bring proceedings on behalf of the Co-operative or intervene in any proceedings to which the Co-operative is a party for the purpose of taking responsibility on behalf of the Co-operative for all or any part of those proceedings.

The Co-operative was not a party to any such proceedings during the year.

ROUNDING OF AMOUNTS

The Co-operative is of a kind referred to in the class order 'Rounding in Financial Reports and Directors' Reports', issued by the Registrar of Co-operatives relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITORS' INDEPENDENCE DECLARATION

The lead auditors' independence declaration for the year ended 30 June 2015 as required by section 307C of the *Corporations Act 2001* is set out on page number 8.

This report is signed in accordance with a resolution of the directors.



Duncan McInnes

Chairman

Sydney, 22 September 2015



J Bywater

Director

Current Sitting Directors:



From left to right:

John Bastian, Andrew Burnett, Steven Downes, James Geraghty, Duncan McInnes (Chairman), Grant Sherborne, Cameron Hodge, Richard Gladigau, John Bywater



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**Auditor's Independence Declaration
To the Directors of Dairy Farmers Milk Co-operative Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Dairy Farmers Milk Co-operative Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink, appearing to read "P J Woodley".

P J Woodley
Partner - Audit & Assurance

Sydney, 22 September 2015

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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

Corporate Governance

THE BOARD OF DIRECTORS

Board composition

The DFMC Board comprises nine directors: seven farmer directors and two independent directors.

The chairman is elected by the board in the first board meeting following the AGM. Directors are generally subject to re-election every four years.

Board responsibilities

The board is responsible to members for the overall governance of the Co-operative and aims to carry out its responsibilities to create and build value for the benefit of all members.

The board recognises its responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Co-operative's members. Directors and members of board committees have access to the advice of external experts, when required. Requests for advice are approved by the board and advice, when obtained, is made available to the whole board.

The board typically meets on a monthly basis. In addition, the board has established the following committees to assist with the execution of its duties as well as allow for more detailed consideration of issues. Each committee has a charter which has been approved by the board. Details of board and committee meetings are provided in the Directors' report.

AUDIT, FINANCE AND GOVERNANCE COMMITTEE

The committee is comprised of three directors appointed by the board, and is chaired by a director who is not the chairman of the board.

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

John Bywater (Chair)

John Bastian

Steven Downes

Access and reporting

The committee maintains direct, unfettered access to the external auditor.

Representatives of the external audit firm attend meetings of the committee as and when required. The committee has full access to the Co-operative's records. The key issues and reports discussed at each committee meeting are reported to the board by the chairman of the committee at DFMC Board meetings.

Responsibilities

The role of the committee is to assist the board of directors to fulfil its responsibility relating to the financial management and governance of the Co-operative. To fulfil this role, the committee endeavours to:

- Consider the financial implications of future major decisions including policies of the board.
- Research, prepare and present fiscally responsible recommendations to improve the attractiveness of members' investment in the Co-operative.
- Ensure the existence of procedures to manage and mitigate major risks and exposures.
- Improve the quality of financial reporting and increase credibility and objectivity by reviewing the financial statements on behalf of the board.
- Strengthen the position of the external auditor by providing a channel of communication and a forum in which to raise specific issues of concern.

External Audit Appointment and Supervision

- (a) Appointment: The committee nominates the external auditor to the board for appointment by members.
- (b) Independence: The Co-operative will not invite any ex-audit partners to be appointed as directors.
- (c) Audit plans: The committee reviews and approves the overall scope and plans for audit activities, including staffing and fees.
- (d) Audit reports: The committee reviews all reports provided by the external auditor.

MEMBER SERVICES AND MILK SUPPLY COMMITTEE

The committee is comprised of four directors appointed by the board, and is chaired by a director who is not the chairman of the board.

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

Andrew Burnett (Chair)

James Geraghty

Cameron Hodge

Grant Sherborne

Scott Sieben (Retired September 2014)

Responsibilities

The role of the committee is to consider issues relating to the supply of milk and also address milk payments and pricing.

Communication with Members

The Co-operative ensures members are informed of all major developments. This is achieved through a range of activities including:

- This annual report being distributed to all members.
- The annual general meeting, which members are encouraged to attend.
- The national convention which is held each year.
- Letters, emails and SMS messages.
- DFMC website www.dfmc.org.au

WARD AND FARMER DEVELOPMENT COMMITTEE

The committee is comprised of four directors appointed by the board, and is chaired by a director who is not the chairman of the board.

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

Andrew Burnett (Chair)
James Geraghty
Cameron Hodge
Grant Sherborne

Responsibilities

The role of the committee is to consider issues relating to the development and accountability of the ward representative system – which has been renamed and restructured and is now called the Ward Representative Advisory Council (WRAC).

WRAC

The Co-operative ensures that an active, functioning and accountable farmer representative system is maintained.

The function of the WRAC is to consider issues presented to them by the DFMC Board. Typically, these include issues on policy and strategy.

- Issues are considered in the context of the farms and farmers from within the WRAC member's region.
- Members attend two key WRAC/DFMC strategic workshops during the year.
- WRAC members are provided with skills-based training to better prepare them as leaders of the dairy industry.

Farmer Development

The Co-operative is looking to encourage personal development amongst members whilst at the same time developing a succession plan for the Co-operative. This is achieved through a range of activities including:

- Development of a Farmer Program.
- Development and managing the Ward Representative Advisory Council.
- Elections and working closely with the Chairs of the Working Groups.

- Development Director training and personal development of Working Groups Chairs.

MILK PRICE AND AFD NEGOTIATION COMMITTEE

The committee is comprised of four directors appointed by the board, and is chaired by a director who is not the chairman of the board.

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

Richard Gladigau (Chair)
John Bywater
James Geraghty
Grant Sherborne

Access

The committee maintains detailed records on competitive milk pricing, utilises pricing spreadsheets and engages in negotiations with Lion executives to establish the milk price and Anticipated Full Demand (AFD) for our regions.

Additionally the committee has access to independent industry analysis and retail sales data in establishing the commercial needs of the processor.

Responsibilities

The role of the committee is to negotiate on behalf of the DFMC Board and our members the base milk price and regional AFD for the coming financial year. The committee reports back to the board and makes recommendations for board consideration and approval. To fulfil this role, the committee:

- Collates competitive milk prices paid in each region.
- Considers market supply and demand conditions including seasonal weather conditions.
- Tracks farm costs of production trends. Seeks independent counsel and monitors closely retail market share trends and LDD commercial sales of milk products that determine DFMC Regional AFD.
- Monitors historical production data taking into account the processors entire milk intake.

Statement of Profit or Loss & Other Comprehensive Income

| For the year ended 30 June 2015 | Notes | 2015 \$'000 | 2014 \$'000 |
|---|-------|----------------|----------------|
| Sales revenue | 2 | 140,103 | 256,481 |
| Cost of sales | | (140,103) | (256,481) |
| Gross profit | | - | - |
| Aggregation fee revenue | 2 | 1,100 | 1,100 |
| Operation fee revenue | 2 | 225 | 225 |
| Administration expenses | 3 | (1,889) | (1,731) |
| Net administration result | | (564) | (406) |
| Investment revenue | | | |
| Dividend revenue – Equities | 2 | 412 | 377 |
| Interest revenue | 2 | 409 | 534 |
| Finance revenue/(costs) | | | |
| Financial institution and others | 3 | (55) | (51) |
| Other income | | | |
| Other Income | 2 | 1,400 | 66 |
| Net investment and financing result | | 2,166 | 926 |
| Profit from continuing operations before income tax | | 1,602 | 520 |
| Income tax (expense)/benefit | 4 | (330) | 69 |
| Profit from continuing operations after income tax before member distributions | | 1,272 | 589 |
| Members' dividends payments* - ordinary | 5 | (579) | (579) |
| Profit for the year | 14 | 693 | 10 |
| Other comprehensive Income: Items that may be reclassified to profit or loss | | | |
| Net (loss)/gain on revaluation of financial assets net of tax | | (275) | 678 |
| Net realised gains on financial assets | | 305 | 109 |
| Other comprehensive (loss)/income for the year | | 30 | 787 |
| Total comprehensive (loss)/income for the year attributable to members of the Co-operative | | 723 | 797 |

* Note that in accordance with AIFRS, dividends payable to members on their ordinary shares are included as finance costs within the income statement. Accordingly, the profit attributable to members of the Co-operative is presented after deducting such finance costs. Refer to notes 1(K), 5 and 13.

The above statement of Profit or Loss & Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

| As at 30 June 2015 | Notes | 2015 \$'000 | 2014 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 6 | 4,545 | 2,747 |
| Receivables | 7 | 379 | 639 |
| Other current assets | 8 | 6,969 | 10,569 |
| Total current assets | | 11,893 | 13,955 |
| Non-current assets | | | |
| Financial assets | 9 | 9,139 | 9,406 |
| Receivables | 7 | - | 201 |
| Total non-current assets | | 9,139 | 9,607 |
| Total assets | | 21,032 | 23,562 |
| Current liabilities | | | |
| Payables | 11 | 169 | 1,522 |
| Provisions | 12 | 134 | 102 |
| Total current liabilities | | 303 | 1,624 |
| Non-current liabilities | | | |
| Provisions | 12 | 17 | 22 |
| Members' share capital* | 13 | 4,554 | 6,766 |
| Deferred tax liabilities | 10 | 442 | 158 |
| Total non-current liabilities | | 5,013 | 6,946 |
| Total Liabilities | | 5,316 | 8,570 |
| Net Assets | | 15,716 | 14,992 |
| Equity | | | |
| Retained profits | 14 | 14,569 | 13,571 |
| Reserves | 17 | 1,147 | 1,422 |
| Total equity | | 15,716 | 14,992 |

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(i), 5 and 13.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2015

| | Retained profits \$'000 | Financial assets Reserve \$'000 | Total \$'000 |
|---|-------------------------------|--|-----------------|
| Balance at 30 June 2013* | 13,452 | 744 | 14,196 |
| Profit attributable to the Co-operative | 10 | - | 10 |
| Total other comprehensive income for the year | 109 | 678 | 787 |
| Balance at 30 June 2014* | 13,571 | 1,422 | 14,993 |
| Profit attributable to the Co-operative | 693 | - | 693 |
| Total other comprehensive loss for the year | 305 | (275) | 30 |
| Balance at 30 June 2015* | 14,569 | 1,147 | 15,716 |

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(i), 5 and 13.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

| For the year ended 30 June 2015 | Notes | 2015 \$'000 | 2014 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 145,876 | 257,635 |
| Payments to suppliers, employees and directors | | (142,208) | (258,291) |
| Cash dividends received | | 412 | 377 |
| Cash interest received | | 410 | 490 |
| Dividends paid - ordinary shares | | (438) | (579) |
| Net operating cash flows | 22 | 4,052 | (368) |
| Cash flows from investing activities | | | |
| Payment for investment in equities | | (277) | (309) |
| Proceeds from sale of investments | | 528 | 1,072 |
| Investment in maturity deposits | | - | (10,554) |
| Repayment of loans from related entities | | 201 | 50 |
| Cash reclassified to other current asset | | (500) | - |
| Net investing cash flows | | (48) | (9,741) |
| Cash flows from financing activities | | | |
| Share subscriptions received | 13 | 229 | 247 |
| Repayment of share forfeit loans | | (2,435) | (1,398) |
| Net financing cash flows | | (2,206) | (1,151) |
| Net Increase/(decrease) in cash | | 1,798 | (11,260) |
| Cash at the beginning of the financial year | | 2,747 | 14,007 |
| Cash at the end of the year | 6 | 4,545 | 2,747 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes separate financial statements for Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative').

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations, the Co-operatives National Law and the applicable sections of the Corporations Act 2001.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Co-operative's financial statements and notes comply with International Financial Reporting Standards (IFRS). The Co-operative is a for-profit entity for the purpose of preparing the financial statements.

These financial statements have been prepared on an accrual basis and are based on historical cost modified where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements for the year ended 30 June 2015 were approved and authorised for issue by the Board of Directors on 22 September 2015.

(b) Cash and cash equivalents (note 6)

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts.

(c) Receivables (note 7)

(i) Other receivables

Other receivables are recognised initially at fair value, which is typically the invoice value, and are subsequently measured at amortised cost less provision for impairment. Other receivables are generally due for settlement within 30 days.

(ii) Collectability

The collectability of other receivables, subordinated loans and farmer loans are reviewed on an ongoing basis and a provision for impairment is established when there is objective evidence that the Co-operative will not be able to collect all amounts due according to the original terms of the receivables.

(d) Impairment

Assets are reviewed for impairment whenever events or change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(e) Payables (note 11)

Trade creditors and accruals typically represent liabilities for goods and services provided to the Co-operative prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(f) Borrowings

Borrowings are classified as current liabilities unless the Co-operative has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share forfeit loans are initially recognised at fair value and are subsequently measured at amortised cost. As a result, the liability is measured at \$1.00 per share forfeited.

(g) Employee benefits (note 12)

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the undiscounted amount that the Co-operative expects to pay as a result of the unused entitlement.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefits (note 12 continued)

(iii) Retirement benefit obligations

All employees of the Co-operative are entitled to benefits from the Co-operative's defined contribution superannuation plan on retirement, disability or death. Obligations for contributions to defined contribution super funds are recognised as an expense in profit and loss when they are due. The Co-operative's legal or constructive obligation is limited to these contributions.

(i) Members' share capital (note 13)

Ordinary shares are initially recorded at fair value and are subsequently measured at amortised cost. As a result, the liability is measured at \$1.00 per share. When ordinary shares are repurchased, the consideration of \$1.00 per share is deducted from members' share capital.

(j) Revenue recognition (note 2)

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Co-operative's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

A sale is recorded when the goods have been delivered to and accepted by the customer or its agent and collectability of the related receivable is probable.

(ii) Aggregation fee revenue

Fee income is recognised in accordance with agreed terms as revenue on a straight line basis over the year.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(iv) Interest revenue

Interest income is recognised on a time proportion basis using the effective interest method.

(k) Finance costs (notes 3 and 5)

(i) Dividend rate

A provision is made for interest payable on members' share capital, which is calculated at the rate of dividend payable on ordinary shares, when the dividend has been appropriately authorised on or before the end of the financial year but not paid and is no longer at the discretion of the Co-operative.

(ii) Other finance costs

Interest expense is recognised on a time proportion basis using the effective interest method.

(l) Income tax (notes 4 and 10)

The income tax expense or revenue for the year is the tax payable on the current year's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Reporting period

The financial report has been prepared for the financial year ended 30 June 2015.

(n) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to the taxation authority is included with other receivables or trade creditors and accruals in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented in operating cash flows.

(o) Rounding of amounts

The Co-operative is of a kind referred to in the class order 'Rounding in Financial Reports and Directors' Reports', issued by the Registrar of Co-operatives relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(p) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) New accounting standards

1. Changes in accounting policies

1.1 New and revised standards are effective for annual periods beginning on or after 1 July 2014

The following Accounting Standards and Interpretations are most relevant to the Co-operative

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014. The adoption of these amendments has not had a material impact on the Co-operative as the amendments merely clarify the existing requirements in AASB 132.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended.

These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that are based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets and is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Co-operative as they are largely of the nature of clarification of existing requirements.

AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles)

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
 - amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria
- Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014. The adoption of these amendments has not had a material impact on the Co-operative as they are largely of the nature of clarification of existing requirements.

1.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Co-operative

AASB 9 has been early adopted by the Co-operative in the prior year.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2015. The co-operative's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the co-operative, are set out below.

AASB 15 Revenue from Contracts with Customers
This standard is currently applicable to annual reporting periods beginning on or after 1 January 2017 (however Exposure Draft 263 'Effective Date of AASB 15' proposes to defer the application date by one year to 1 January 2018). The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is expected that the co-operative will adopt this standard from 1 July 2018 (presuming ED 263 is passed) but the impact of its adoption is yet to

be assessed. The impact on the co-operative is likely to be immaterial. Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the co-operative as their amendments provide either clarification of existing accounting treatment or editorial amendments.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

This amendment:

- clarifies the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarifies that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- adds requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarifies that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- removes potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy. When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

(r) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

i. Financial assets measured at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. At each reporting date, the co-operative assesses whether there is objective evidence that a financial instrument has been impaired. Such impairment losses are recognised in the income statement.

ii. Financial assets at fair value

Following the early adoption of AASB 9, all investments form part of the co-operative's investment portfolio and have been classified as financial assets at fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income include investments in the co-operative's investment portfolio. Financial assets at fair value through other comprehensive income are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity (into the asset revaluation reserve). Realised gains or losses on the sale of investments are also shown in the asset revaluation/realisation reserve, then transferred to retained earnings at the end of the reporting period.

iii. Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Fair value Fair value is determined based on current bid prices for all quoted investments.

Impairment

At each reporting date, co-operative assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(s) Significant judgments in applying accounting policies

(i) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is possible that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

(ii) Valuation of investments

The Co-operative Board has decided to classify investments in listed securities as 'financial assets at fair value through comprehensive income' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been.

Notes to the Financial Statements

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| NOTE 2: REVENUE AND OTHER INCOME | | |
| Revenue from continuing operations | | |
| <i>Sales revenue</i> | | |
| Sales revenue – sale of goods to DFL (a) | 140,103 | 256,481 |
| | <u>140,103</u> | <u>256,481</u> |
| <i>Other administration and investment revenue</i> | | |
| Aggregation fee revenue (b) | 1,100 | 1,100 |
| Operation fee revenue (c) | 225 | 225 |
| Dividend revenue – Equities | 412 | 377 |
| Interest revenue | 409 | 534 |
| | <u>2,146</u> | <u>2,236</u> |
| Total revenue from continuing operations | <u>142,249</u> | <u>258,717</u> |
| Other income | | |
| Other Income (d) | <u>1,400</u> | <u>66</u> |

(a) Sale of goods to DFL

DFMC and DFL have entered into a ten year rolling Milk Supply Agreement, which presently expires in June 2019, so that DFMC can secure a long term dependable outlet for milk at a commercial price. Prior to the implementation of the Australian Co-operative Foods (ACF) Scheme, DFMC and ACF (now DFL) jointly sought authorisation from the ACCC regarding aspects of the Milk Supply Agreement to ensure compliance with the Trade Practices Act. The ACCC authorised aspects of the Milk Supply Agreement for which approval was sought for a period of 5 years from the date the transaction was completed. In June 2013, the ACCC re-authorised the Milk Supply agreement for a period of 10 years.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, while DFMC derives at least 90% of its revenues from DFL, DFL must pay the Aggregation Fee to DFMC to cover the expenses incurred by DFMC in connection with the consolidation or aggregation of the milk supply for on sale to DFL. The Aggregation Fee for the year ended 30 June 2015 was agreed at \$1.1 million (2014: \$1.1 million).

(c) Operation fee revenue

DFMC receives additional revenue over the agreed aggregation fee to cover the Co-operatives day to day running costs.

(d) Other Income

DFMC had made a provision in 2008 in regards to ex-members potential claims to the dividend payable on the sale of Dairy Farmers Limited. Upon receiving legal advice and due to the significant length of time, the DFMC Board has decided to write the provision back into income, as it has been determined that the likelihood of these amounts now being claimed is negligible.

DFMC receives additional revenue over the agreed aggregation fee to cover the Co-operatives Farm Advisory Services.

Notes to the Financial Statements

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| NOTE 3: EXPENSES | | |
| Profit before income tax includes the following specific expenses | | |
| Finance costs | | |
| Members' share capital payments (Note 5) | | |
| Special dividends | 579 | 579 |
| Financial institution and others | 55 | 51 |
| Employee and director benefits expense | 779 | 640 |
| Defined contribution superannuation expense | 74 | 107 |
| | <u>1,487</u> | <u>1,377</u> |
| NOTE 4: INCOME TAX | | |
| (a) Income tax expense reconciliation | | |
| Profit before income tax | 1,023 | 79 |
| Income tax expense calculated at 30% (2014: 30%) | 307 | 24 |
| Tax effect of amounts not deductible or (taxable) | | |
| Franked amount of members' share capital payments | 87 | 174 |
| Other non-deductible expenditure | 104 | 97 |
| Franked dividend revenue | (111) | (96) |
| | <u>387</u> | <u>199</u> |
| Recognition of prior period tax losses not recognised in prior years | (57) | (148) |
| Under provided in prior years | - | 18 |
| Income tax expense/(benefit) | <u>330</u> | <u>69</u> |
| Average effective tax rate | (30%) | (23%) |
| Income tax expense analysis | | |
| (b) | | |
| Deferred tax | | |
| Changes in deferred tax assets (Note 10) | 360 | (51) |
| Changes in deferred tax liabilities (Note 10) | (30) | 120 |
| Income tax expense/(benefit) | <u>330</u> | <u>69</u> |
| (c) Unrecognised tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | - | - |
| Unused capital tax losses for which no deferred tax asset has been recognised | 13,484 | 13,698 |
| Potential tax benefit at 30% | - | - |
| | <u>4,045</u> | <u>4,109</u> |

Notes to the Financial Statements

NOTE 5: DIVIDENDS ON MEMBERS' SHARE CAPITAL

In accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability and dividends payable to members on their ordinary shares are included as finance costs within the income statement. The amount of these 'dividends' on ordinary shares are disclosed in note 3 and as follows:

Dividends

(a) Special dividends – recognised and paid during the financial year

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| (i) | | |
| Payment date | 15/12/2014 | 15/11/2013 |
| Dividend per share | \$0.12 | \$0.08 |
| Per cent franked | 50% | 100% |
| Paid in cash | 438 | 579 |
| Re-invested DFMC shares | 141 | - |
| Total ordinary dividends paid during the financial year | 579 | 579 |

Franking credits

| | | |
|---|-----|-----|
| (b) Franking credits available for subsequent financial years | 158 | 192 |
|---|-----|-----|

The above franking account balance has been adjusted for:

- (i) Franking credits/(debits) that will arise from the payment/(refund) of income tax payable/(receivable) as at the end of the Financial Year.
- (ii) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Interest payable at dividend rate

(c) Under Co-operatives National Law (NSW) if membership is cancelled, share capital must be repaid to the former member within one year of the cancellation. Current DFMC policy is to repay share capital as soon as possible following cancellation. Under certain specified circumstances, the amount may be retained and applied as a deposit, debenture or CCU with interest payable at the dividend rate as disclosed in note 1k(i). No amounts were retained, under these provisions, in the financial year ended 30 June 2015 and therefore no interest was paid.

NOTE 6: CASH AND CASH EQUIVALENTS

| | | |
|---------------------------|-------|-------|
| Cash and cash equivalents | 4,545 | 2,747 |
|---------------------------|-------|-------|

Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 2.95% and 4% (2014: 4.10% and 5.90%).

Notes to the Financial Statements

NOTE 7: RECEIVABLES

| | 2015 \$'000 | 2014 \$'000 |
|-------------------|----------------|----------------|
| Current | | |
| Other receivables | 379 | 639 |

| | Gross Amount | Past Due and Impaired | < 30 | Past Due but Not Impaired (Days Overdue) | | | Within Initial Trade Terms |
|-------------------|-----------------|-----------------------------|------|---|-------|------|----------------------------------|
| | \$ | \$ | \$ | 31-60 | 61-90 | > 90 | \$ |
| 2015 | | | | | | | |
| Other receivables | 379 | - | - | - | - | - | 379 |
| | | | | | | | |
| | Gross Amount | Past Due and Impaired | < 30 | Past Due but Not Impaired (Days Overdue) | | | Within Initial Trade Terms |
| | \$ | \$ | \$ | 31-60 | 61-90 | > 90 | \$ |
| 2014 | | | | | | | |
| Other receivables | 639 | - | - | - | - | - | 639 |

| | 2015 \$'000 | 2014 \$'000 |
|----------------------|----------------|----------------|
| Non-Current | | |
| Receivable from ADFC | - | 201 |

NOTE 8: OTHER CURRENT ASSETS

| | | |
|---------------|-------|--------|
| Prepayments | 14 | 15 |
| Term deposits | 6,955 | 10,554 |
| | 6,969 | 10,569 |

NOTE 9: FINANCIAL ASSETS

| | | |
|--|-------|-------|
| Financial assets at Fair Value – shares in listed corporations | 9,139 | 9,406 |
|--|-------|-------|

(a) Investment in equities

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth in February 2010 to invest \$8.5 million in the Australian equities market. For the year ended 30 June 2015, withdrawal of \$0.5 million was transferred to ANZ Bank account. There are no fixed returns or fixed maturity dates attached to these investments.

Notes to the Financial Statements

NOTE 10: DEFERRED TAX ASSETS & LIABILITIES

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Deferred tax assets | | |
| Amounts recognised in profit or loss | | |
| Accruals | 37 | 397 |
| Consulting and advisory costs | - | 1 |
| Employee provisions | 45 | 44 |
| Mark-to-market available for sale financial asset | - | - |
| Total deferred tax assets | 82 | 442 |
| (a) Movements in deferred tax assets | | |
| Balance at the beginning of the year | 442 | 409 |
| Credited to the income statement | (360) | 51 |
| Credited to equity | - | - |
| (Under)/Over in prior year | - | (18) |
| Tax losses derecognised during the current year | - | - |
| Balance at the end of the year | 82 | 442 |
| (b) Timing of recovery | | |
| To be recovered | | |
| Within 12 months | 77 | 435 |
| After 12 months | 5 | 7 |
| | 82 | 442 |
| Deferred tax liabilities | | |
| The balance comprises temporary differences attributable to: | | |
| Mark-to-market investments | 492 | 539 |
| Unearned revenue | 32 | 61 |
| Total deferred tax liabilities | 524 | 600 |
| (c) Movements in deferred tax liabilities | | |
| Balance at the beginning of the year | 600 | 299 |
| Charged to the income statement | (29) | 11 |
| Charged to equity | (47) | 290 |
| Balance at the end of the year | 524 | 600 |
| (d) Timing of settlement | | |
| To be settled | | |
| Within 12 months | 524 | 600 |
| | 524 | 600 |
| Total net deferred tax balances | (442) | (158) |

NOTE 11: PAYABLES

| | | |
|------------------------------|-----|-------|
| Trade creditors and accruals | 169 | 1,522 |
|------------------------------|-----|-------|

Notes to the Financial Statements

NOTE 12: PROVISIONS

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Current | | |
| Employee benefits | 134 | 102 |
| Non-current | | |
| Employee benefits | 17 | 22 |
| Balance at the beginning of the year | 174 | 87 |
| Charged to the statement of comprehensive income | (20) | 91 |
| Amounts used | (3) | (4) |
| Balance at the end of the year | 151 | 174 |

NOTE 13: MEMBERS' SHARE CAPITAL

| | Number of Shares | | Nominal Value | |
|---|------------------|------------------|----------------|----------------|
| | 2015 # | 2014 # | 2015 \$'000 | 2014 \$'000 |
| Opening balance – shares of \$1 each (fully paid) | 6,765,609 | 7,917,035 | 6,766 | 7,917 |
| Shares issued | 204,980 | 11,174 | 204 | 11 |
| Share levies (a) | 25,449 | 235,427 | 25 | 236 |
| Shares forfeited (b) | (2,438,407) | (1,398,027) | (2,436) | (1,398) |
| Early repayment of shares | (3,854) | - | (3) | - |
| Closing balance – shares of \$1 each (fully paid) | 4,553,777 | 6,765,609 | 4,554 | 6,766 |
| Balance at the end of the year | 4,553,777 | 6,765,609 | 4,554 | 6,766 |

Ordinary shares

Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Classification in this manner occurs because the Co-operative must forfeit and ultimately repay share capital that is forfeited under the inactive membership rules contained in the Co-operatives National Law (NSW) and the Rules of the Co-operative.

Ordinary shares entitle the holder to participate in dividends of the Co-operative in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each shareholder is entitled to one vote.

(a) Milk payment deductions

Under the terms of its Share Acquisition Program (approved by the majority of the members at the 2011 AGM), the Co-operative makes deductions from payments to members for milk supplies. Periodically, these monies are applied by the Co-operative to issue shares to members.

Notes to the Financial Statements

NOTE 13: MEMBERS' SHARE CAPITAL (continued)

(b) Shares forfeited

Under the Co-operatives National Law (NSW) and the Rules of the Co-operative, the membership of an inactive member is cancelled and the members' shares are forfeited contemporaneously after one year of continuous inactivity (i.e. non supply of raw milk).

(c) Capital management

The Co-operative's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to members and for other stakeholders and to maintain an optimal structure to reduce costs of capital.

In order to maintain or adjust the capital structure the Co-operative may reduce its share capital, adjust the amount of dividends paid to shareholders including through the dividend re-investment plan or may guarantee capital through deductions from payments to members of milk supplies under the terms of its share acquisition program.

The board of directors and the audit, finance and governance committee monitor the capital needs of the Co-operative.

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| NOTE 14: RETAINED PROFITS | | |
| Balance at the beginning of the year | 13,571 | 13,452 |
| Profit attributable to members | 693 | 10 |
| Realised gain/losses on sale of investments | 305 | 109 |
| Balance at the end of the year | 14,569 | 13,571 |

NOTE 15: COMMITMENTS FOR EXPENDITURE

The Co-operative had nil commitments at the end of the financial year (2014: nil).

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Co-operative has no contingent liabilities or assets as at 30 June 2015 (2014: nil).

NOTE 17: FINANCIAL ASSETS RESERVE

| | | |
|---|-------|-------|
| The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value. | 1,147 | 1,422 |
|---|-------|-------|

Notes to the Financial Statements

| | 2015 \$ | 2014 \$ |
|--|------------|------------|
| NOTE 18: AUDITORS' REMUNERATION | | |
| Amount received, or due and receivable by Grant Thornton for audit of the financial report | 18,500 | 18,000 |
| Amount received, or due and receivable by Grant Thornton for tax services | 8,500 | 26,527 |

NOTE 19: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of the Co-operative during the year and up to the date of the Directors' Report were:

J J Bastian, A D R Burnett, J W Bywater, S Downes, J B Geraghty, R T Gladigau, C Hodge (Appointed Nov 2014), D A M^cInnes (Chairman) and G Sherborne, S D Sieben (Retired Sept 2014).

(b) Executive Officer

DFMC appointed an Executive Officer in February 2009. The compensation of the Executive Officer is included within the key management personnel compensation disclosed in note 19(d).

(c) Principles used to determine the nature and amount of remuneration

Base directors' fees were established at the first annual general meeting on 17 November 2004 based on advice from external advisors, which included reference to fee levels for comparable companies. Members voted to change the base fee levels per director at the 2009 annual general meeting. At the 2009 annual general meeting the members approved a total payment of \$20,000 per annum to the chairperson/s of board sub-committees, an increase to a total of \$40,000 base fee per annum for all directors and a reduction to base fee to \$85,000 per annum for the Chairman of the Board. The total fees paid are within the limit approved by members.

The board commits to fair and responsible remuneration policies by ensuring that the level and composition of remuneration packages recognises market levels and is sufficient to attract and retain motivated directors. The focus of the board is on the long-term strategic direction and overall performance of the Co-operative. As a consequence, director remuneration is not directly related to short-term results.

The board engaged independent consultancy company Mercer to assist in establishing the Executive Officer remuneration, taking into account reasonable market remuneration for the role and responsibilities.

Notes to the Financial Statements

NOTE 19: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Key management personnel compensation

| | 2015 | 2014 |
|---|---------|---------|
| | \$ | \$ |
| Short-term employment benefits | 775,537 | 638,828 |
| Post-employment benefits (superannuation) | 69,542 | 106,742 |
| Total key management personnel compensation | 845,079 | 745,570 |

The compensation noted above comprises the following per annum fixed directors' fees (inclusive of superannuation), which applied throughout all of the current and previous financial years with the exception of the sub-committee chairperson's fees as described in note 19(c). The compensation noted above also includes the Executive Officer and the Farm Advisory Services which are now employed directly by the Co-operative, thus accounting for the major increase in the Short-term employment benefits.

Director fees for the current financial year are:

| | Number of Directors | Per Annum Fee |
|-----------------|---------------------|---------------|
| | | \$ |
| Chairman | 1 | 85,000 |
| Other directors | 8 | 340,000 |

(e) Other transactions with key management personnel

a. Farmer directors

The Co-operative has undertaken the following transactions with farmer directors and their related entities. All transactions have been conducted within normal commercial terms and conditions as is applicable to all of the Co-operative's farmers and shareholders:

- The acquisition of milk from the farmer directors by the Co-operative
- The issue of ordinary shares to farmer directors and their related entities in relation to the Share Acquisition Program and dividend re-investment plan.
- The holding of ordinary shares by farmer directors and their related entities, and if applicable, the forfeiture of such shares in accordance with the inactive membership provisions

b. Directors

The Co-operative has undertaken the following transactions with farmer directors and their related entities. All transactions have been conducted within normal commercial terms and conditions as is applicable to all of the Co-operative's farmers and shareholders:

- The engagement of services of John Bywater outside of director duties to the value of \$10,000 (2014: \$10,000) in the preparation of documentation relating to independent industry analysis

Other than as noted above and in (a) in relation to farmer directors, there were no other transactions with any director or their director related entities during the current or the previous financial year other than re-imbursement of out-of-pocket business expenses and various minor business related fringe benefits.

NOTE 20: RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY

DFMC is economically dependent on DFL for a significant amount of its revenue and financial support and accordingly disclosure has been made of the significant transactions between DFMC and DFL in the relevant sections of the financial report as follows:

- Sale of milk to DFL (note 2 (a))
- Aggregation fee revenue & Operational fee derived from DFL (note 2 (b& c))
- Other revenue derived from DFL (note 2 (d))

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of \$100,000 (2014: \$100,000) to DFL during the financial year to cover the cost of providing administrative facilities and services including offices, communication services, computer hardware and systems, and accounting and secretarial services.

DFMC and Australian Dairy Farmers Co-operative (ADFC) were related parties for the purposes of Competition and Consumer Act and did have directors in common. In April 2015, ADFC's rules were altered which in effect ended the related party status and a Deed was signed between the two entities that terminated the Management Service Agreement. At the same time, the financial Loan of \$201,000 was paid back in full.

Notes to the Financial Statements

NOTE 21: FINANCIAL FACILITIES

The Co-operative currently operates without the need for bank finance facilities. A fixed amount of annual funding is made available to DFMC to cover its administrative costs through the aggregation fee revenue from DFL as indicated in note 2(b).

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| NOTE 22: CASH FLOW RECONCILIATION | | |
| Profit attributable to members | 693 | 10 |
| <i>Non-cash items in operating profit</i> | | |
| Interest on share portfolio | (8) | (16) |
| Other non-cash items | 29 | (289) |
| Fund management fee | 53 | 50 |
| Dividend reinvestment | 141 | - |
| Non-cash provision reversal | (1,190) | - |
| <i>Movement in assets and liabilities</i> | | |
| Decrease/(Increase) in other assets | 3,600 | (2) |
| Increase in deferred tax | 284 | 267 |
| (Decrease) in payables and accruals | (38) | (15) |
| Decrease /(Increase) in receivables | 461 | (409) |
| Increase in provisions | 27 | 36 |
| Net cash inflow/(outflow) from operating activities | <u>4,052</u> | <u>(368)</u> |

Shares forfeited during the year totalling \$2.438 million 2014: \$1.398 million) were transferred from members' share capital.

NOTE 23: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The directors' overall risk management strategy seeks to assist the Co-operative in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Co-operative's Board of Directors on a regular basis. These include the credit risk policies and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for company operations. The Co-operative does not have any derivative instruments.

Specific Financial Risk Exposures and Management

The main risks the Co-operative is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk.

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Co-operative. The Co-operative is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc. The Co-operative's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

| | Note | 2015 \$'000 | 2014 \$'000 |
|------------------------------------|------|----------------|----------------|
| Classes of Financial assets | | | |
| Carrying amounts: | | | |
| Cash and cash equivalents | 6 | 4,545 | 2,747 |
| Loans and receivables | 7 | 379 | 639 |

The Co-operative continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Co-operative's policy is to deal only with creditworthy counterparties.

The Co-operative's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. None of the unimpaired trade receivables are past due as at the reporting date.

In respect of trade and other receivables, the Co-operative is exposed to significant credit risk due to exposure to a limited group of counterparties. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk

Liquidity risk arises from the possibility that the Co-operative might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Co-operative manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- using derivatives that are only traded in highly liquid markets;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year-end could become repayable within 12 months.

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

| | Note | 2015 \$'000 | 2014 \$'000 |
|--|------|----------------|----------------|
| Financial assets | | | |
| Cash and cash equivalents | 6 | 4,545 | 2,747 |
| Loans and receivables | 7 | 379 | 639 |
| Financial Assets at fair value: | | | |
| – listed investments | 9 | 9,139 | 9,406 |
| Total financial assets | | 14,063 | 12,792 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost: | | | |
| – trade and other payables | 11 | 169 | 1,472 |
| Total financial liabilities | | 169 | 1,472 |

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

Financial liability and financial asset maturity analysis

| | Within 1 Year | | 1 to 5 Years | | Over 5 Years | | Total | |
|--|---------------|--------|--------------|--------|--------------|--------|--------|--------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial liabilities due for payment | | | | | | | | |
| Trade and other payables (excluding est. annual leave) | 169 | 1,472 | - | - | - | - | 169 | 1,472 |
| Total contractual outflows | 169 | 1,472 | - | - | - | - | 169 | 1,472 |
| Less bank overdrafts | - | - | - | - | - | - | - | - |
| Total expected outflows | 169 | 1,472 | - | - | - | - | 169 | 1,472 |
| Financial assets — cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 4,545 | 2,747 | - | - | - | - | 4,545 | 2,747 |
| Trade, term and loan receivables | 379 | 639 | - | 201 | - | - | 379 | 840 |
| Other investments | - | - | - | - | 9,139 | 9,406 | 9,139 | 9,406 |
| Total anticipated inflows | 4,924 | 3,386 | - | 201 | 9,139 | 9,406 | 14,063 | 12,993 |
| Net (outflow)/inflow on financial instruments | 4,755 | 1,914 | - | 201 | 9,139 | 9,406 | 13,894 | 11,521 |

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

The Co-operative's investments are held in the following sectors at the end of the reporting period:

| | Note | 2015 \$'000 | 2014 \$'000 |
|----------------------------------|------|----------------|----------------|
| Banks | | 3,301 | 3,346 |
| Commercial services & supplies | | 521 | 510 |
| Diversified financials | | 1,192 | 1,036 |
| Energy | | 499 | 729 |
| Food & drug retailing | | 650 | 783 |
| Health care equipment & services | | 295 | 218 |
| Insurance | | 573 | 414 |
| Materials | | 733 | 876 |
| Pharmaceuticals & Biotechnology | | 456 | 351 |
| Real estate | | 272 | 328 |
| Software & services | | 278 | 297 |
| Telecommunication services | | 369 | 311 |
| Transportation | | - | 208 |
| Cash Management Account | | 333 | 209 |
| | | 9,472 | 9,616 |

Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities held.

Such risk is managed through diversification of investments across industries and geographic locations.

Sensitivity analysis

The following table illustrates sensitivities to the Co-operative's exposures to changes in interest rates and equity prices. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Profit | Equity |
|--------------------------------|-----------|-----------|
| Year ended 30 June 2015 | \$ | \$ |
| +/- 2% in interest rates | +/- 232 | +/- 232 |
| +/-10% in listed investments | N/A | +/- 965 |
| Year ended 30 June 2014 | | |
| +/- 2% in interest rates | +/- 282 | +/- 282 |
| +/-10% in listed investments | N/A | +/- 865 |

As investments are classified as available for sale assets unless there is impairment any movement in fair value would be recorded in reserves, therefore no impact on profits projected.

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the company. Most of these instruments which are carried at amortised cost (ie trade receivables & loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the company.

| | Footnote | 2015 | | 2014 | |
|--|----------|----------------|------------|----------------|------------|
| | | Net | Net | Net | Net |
| | | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | | |
| Cash and cash equivalents | (i) | 4,545 | 4,545 | 2,747 | 2,747 |
| Trade and other receivables | (i) | 379 | 379 | 840 | 840 |
| | | 4,924 | 4,924 | 3,587 | 3,587 |
| Financial asset at fair value through other comprehensive income: | | | | | |
| – at fair value: | | | | | |
| – Listed Investments | | | | | |
| | | 9,139 | 9,139 | 9,406 | 9,406 |
| Total financial asset at fair value through other comprehensive income | (iii) | 9,139 | 9,139 | 9,406 | 9,406 |
| Total financial assets | | 14,063 | 14,063 | 12,993 | 12,993 |
| Financial liabilities | | | | | |
| Trade and other payables | (i) | 169 | 169 | 1,472 | 1,472 |
| Members' share capital | (iv) | 4,554 | 4,554 | 6,766 | 6,766 |
| Total financial liabilities | | 4,723 | 4,723 | 8,238 | 8,238 |

Notes to the Financial Statements

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts relating to the provision of annual leave which is not considered a financial instrument.
- (ii) Discounted cash flow models are used to determine the fair values of loans and advances. Discount rates used on the calculations are based on interest rates existing at the end of the reporting period for similar types of loans and advances. Differences between fair values and carrying values largely represent movements in the effective interest rate determined on initial recognition and current market rates.
- (iii) For listed financial assets through other comprehensive income, closing quoted bid prices at the end of the reporting period are used. In determining the fair values of the unlisted financial assets through other comprehensive income, the directors have used inputs that are observable either directly (as prices) or indirectly (derived from prices).
- (iv) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair value of fixed rate bank debt will differ from carrying values.

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).
- Significant improvements in the equities market since GFC, has seen DFMC sell down on some stocks that has provided DFMC with a realised profit of \$0.230 million (\$0.156m in 2013/14)

| 2015 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|------|-------------------|-------------------|-------------------|
|------|-------------------|-------------------|-------------------|

Financial assets

Financial asset at fair value through other comprehensive income:

| | | | |
|----------------------|-------|---|---|
| — listed investments | 9,139 | - | - |
| | 9,139 | - | - |

| 2014 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|------|-------------------|-------------------|-------------------|
|------|-------------------|-------------------|-------------------|

Financial assets

Financial asset at fair value through other comprehensive income:

| | | | |
|----------------------|-------|---|---|
| — listed investments | 9,406 | - | - |
| | 9,406 | - | - |

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

Notes to the Financial Statements

NOTE 24: EVENTS AFTER THE REPORTING PERIOD

Lion Dairy & Drinks (LDD) has increased their commercial milk requirements for DFMC which will see an increase in the commercial requirements of Milk for LDD in 2015/16 financial year.

In addition the Board of DFMC plans to commence civil action in the Supreme Court in relation to fraudulent activities that were undertaken by a past employee.

Apart from the above, no other matters or circumstances of significance have arisen as per the directors report since the end of the financial year which significantly affected or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

NOTE 25: CO-OPERATIVE DETAILS

The registered office and principal place of business is:

12/60 Carrington Street

SYDNEY NSW 2000

Directors' Declaration

The directors of the Co-operative declare that:

- (a) the financial statements and notes set out on pages 11 to 36 are in accordance with the [Co-operatives \(Adoption of National Law\) Act 2012](#) and the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the [Co-operatives \(Adoption of National Law\) Act 2012](#) the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Co-operative's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (iii) complies with International Financial Reporting Standards as disclosed in Note 1; and
- (b) there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Duncan McInnes

Chairman



J Bywater

Director

Sydney, 22 September 2015

Independent Auditor's Report



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Independent Auditor's Report To the Members of Dairy Farmers Milk Co-operative Limited

We have audited the accompanying financial report of Dairy Farmers Milk Co-operative Limited ("the Co-operative"), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Co-operative.

Directors' responsibility for the financial report

The Directors of the Co-operative are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's

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judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Co-operative's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion the financial report of Dairy Farmers Milk Co-operative Limited is in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Co-operative's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- c the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on other legal and regulatory requirements

In our opinion, the financial report of Dairy Farmers Milk Co-operative Limited gives a true and fair view of the Co-operative's financial position as at 30 June 2015 and of its performance for the year ended on that date, in accordance with the requirements of the Co-operatives National Law.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P J Woodley
Partner - Audit & Assurance

Sydney, 22 September 2015







**Dairy
Farmers**
milk co-operative

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