DAIRY FARMERS MILK CO-OPERATIVE ANNUAL REPORT 2014

YEAR ENDED 30 JUNE 2014

ARBN: 108 690 384

Contents

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

12/60 Carrington Street
SYDNEY NSW 2000
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Facsimile:
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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

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Grant Thornton Audit Pty Ltd

SOLICITORS

Addisons Lawyers

EXECUTIVE OFFICER & SECRETARY

Greg Griffith

Facts at a glance

Highlights

• DFMC continued to negotiate terms pursuant to the Milk Supply Agreement. Suppliers received a strong commercial milk price. Reflecting Lion's commercial needs, with the total average milk price increasing by 8.45% from the previous financial year.	• DFMC had a continuing operating profit before income tax & dividend payments of $520,000. This is a decrease of $144,000 from the year prior due to a reduction in interest earned from bank investments and dividends received which have been partially offset by decreased administrative expenses.
• DFMC members received an 8% fully franked dividend on shareholding. Total payment equated to $579,000.	• DFMC had a $73,015 realised growth from its share portfolio. • DFMC had a net gain of $1,012 million in the market movement or approx.18.15% total return on a 'Mark to Market' basis.

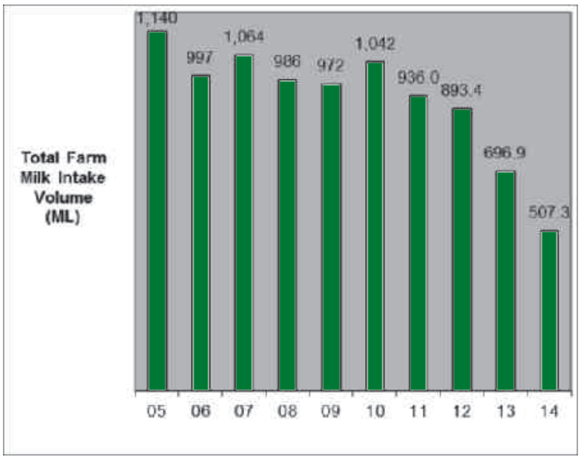
Metrics

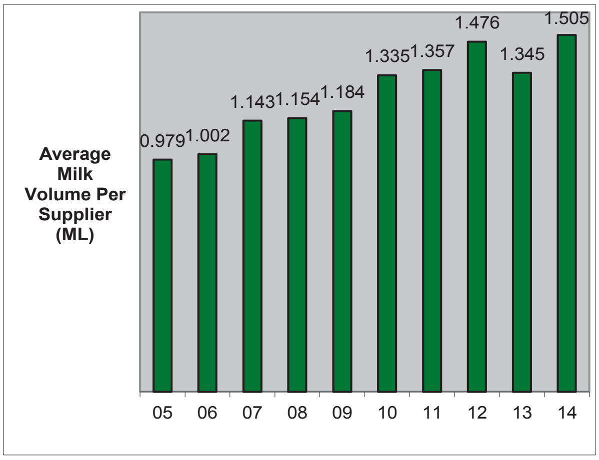
Financial Metrics	**2014**	**2013**
Performance and Returns		
Special dividends paid to members $'000 ($0.08 per share)	**579**	647
Special dividends – percentage franked	**100%**	100%
NPAT before dividends to members $'000	**589**	682
Dividends paid to members [(1)] $'000	**(579)**	(647)
NPAT [(1)] $'000	**10**	35
Balance Sheet		
Net tangible assets [(2)] $'000	**14,993**	14,196
Milk Supply Metrics		
Total milk volumes – million litres	**507**	697
Number of suppliers at year end	**337**	518
Average milk volume per supplier – million litres	**1,505**	1,345
Increase/(Decrease) in milk price year-on-year	**8.45%**	(3.76)%
Suppliers under contract	**100%**	100%

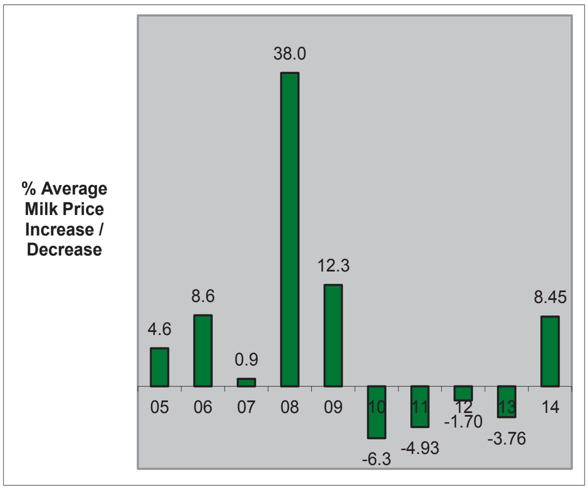
Notes

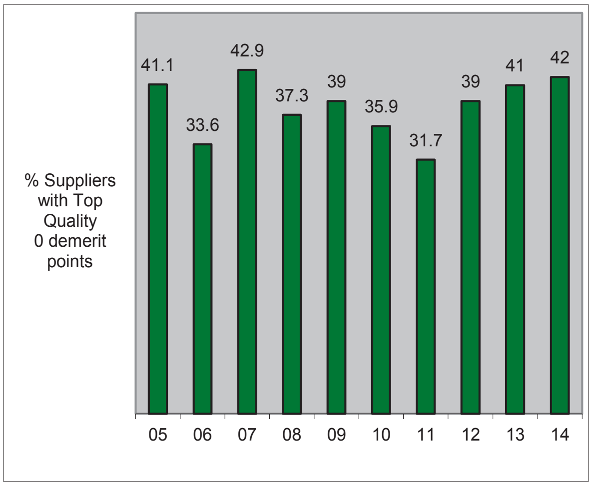
(1) Under Australian International Financial Reporting Standards ('AIFRS'), dividends paid to members on ordinary shares are included as finance costs within the income statement.

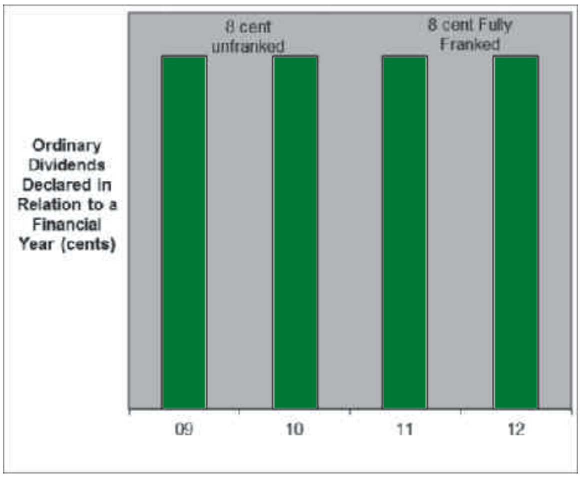
(2) Net tangible assets have been calculated prior to subtracting member share capital which under AIFRS is classified as a liability.

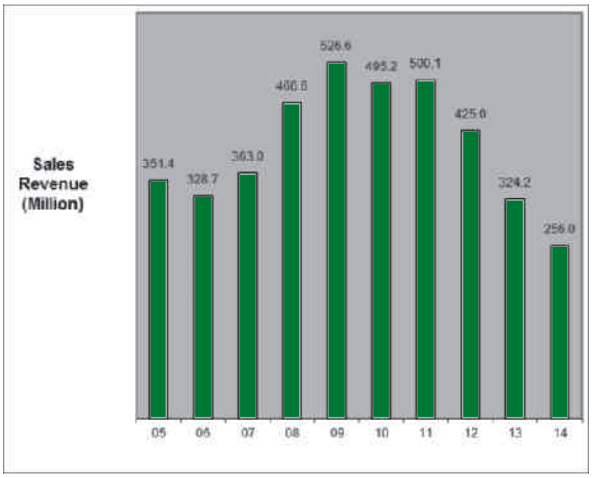

Total Farm Milk Intake Volume (ML)
1,140
997
1,064
986
972
1,042
936.0
893.4
696.9
507.3
05 06 07 08 09 10 11 12 13 14


Average Milk Volume Per Supplier (ML)
0.979
1.002
1.143
1.154
1.184
1.335
1.357
1.476
1.345
1.505
05 06 07 08 09 10 11 12 13 14


% Average Milk Price Increase / Decrease
4.6
8.6
0.9
38.0
12.3
-6.3
-4.93
-1.70
-3.76
8.45
05 06 07 08 09 10 11 12 13 14


% Suppliers with Top Quality 0 demerit points
41.1
33.6
42.9
37.3
39
35.9
31.7
39
41
42
05 06 07 08 09 10 11 12 13 14


Ordinary Dividends Declared in Relation to a Financial Year (cents)
8 cent unfranked
8 cent Fully Franked
09 10 11 12


Sales Revenue (Million)
351.4
328.7
363.0
460.6
526.6
495.2
500.1
425.0
324.2
256.0
05 06 07 08 09 10 11 12 13 14

Chairman's Report

Fellow Shareholders,

It gives me great pleasure to present the annual report for the year 2013/14 for your co-operative. From the annual general meeting in November last year we welcomed Grant Sherborne and Steven Downes to the Board.

Seasonally, as is often the situation, regions vary considerably and even within the regions there have been some large discrepancies. The south generally has had as a whole reasonable rainfall with parts of South Australia probably too wet in the last number of months. New South Wales varied greatly with the west having one of their best seasons ever and some coastal areas which are predominately high rainfall in desperate need of rain at the time of writing. South East Queensland generally has had a season of below average rainfall with North Queensland ending up with a very wet late season. Commodity and grain prices have been at the high end of the spectrum with the impact on the bottom line for most North of the Murray farmers being adversely affected.

As was mentioned in last year's report following the impending loss of the Coles Contract by Lion the co-operative has lost a considerable number of members transferring mainly to the processors who gained that particular contract. The fear of being paid Tier 2 milk was the driver in most cases. Whilst we are sorry to lose these suppliers it does give the remaining suppliers the opportunity in all regions to grow their businesses with a shortfall of milk between our present production and Lion's regional commercial needs. This is the first time for many years that this has been the case and farmers generally welcome this situation as long as the increased production can be profitable.

The price negotiations with Lion this year have resulted in the majority of our farmers being ahead of the major processors in the region. This hopefully has given farmers confidence to look into longer term contracts of three or five years with the guarantee of all their milk at the announced Tier 1 value. There are some policy issues namely logistics and productivity incentives that we will be discussing with Lion in the coming months.

The relationship with Lion whilst having some tension (as will always be the case) I believe has improved with the appointment of Peter West as Managing Director of Lion Dairy & Drinks. We appreciate Peter's involvement and his vision of growing the business which should ultimately help our farmers.

The co-operative has had a sound financial year showing a profit from continuing operations before income tax of $520,000. A focus on costs has been at the forefront of the Audit & Finance Committee and will continue to be so with less milk being supplied to the co-operative. Our investments in the share market had good returns this year with our balance sheet in a very sound position.

A challenge for the Board is diminishing shareholders which lead to the increase in the asset backing per share. This can lead to speculation from shareholders towards shares with asset backing increased by more than 50% in the last few years. The Board's intention is to pay a substantially higher dividend and a rebate paid on business done in the previous financial year. An opportunity to reinvest both of these into shares will be offered to shareholders which if exercised over a number of years will help reduce the asset backing per share.

A change of employing our field officers direct rather than through Lion is now in place which is a far more sensible arrangement than the previous system where Lion did the employing. We now pay for the officers concerned and are totally responsible for all facets of hiring and firing, etc. and are reimbursed by Lion for their wages. Mal Maroske retired and Ron Page resigned during the year and we thank them for their contribution over many years.

With Australian Dairy Farmers Co-operative (ADFC) business needs evolving, the future structure of both the DFMC and ADFC boards have been a discussion point between both entities. The result has seen Scott Sieben (Chairman of ADFC) resigned in September 2014 from his DFMC dual director role to concentrate on his ADFC position and we also thank him very much for his time and effort since joining us in 2011. Additional changes to the board structure will occur as constitutional changes for ADFC are finalised in the coming months.

I wish to place on record the Board's appreciation to three long standing directors – Ian Zandstra, John Macarthur-Stanham and Trevor Middlebrook, all of whom were directors of DFMC since its inception.

The board greatly appreciates the work undertaken by all our staff and especially Greg Griffith who has had to juggle the role of being Executive Officer for both DFMC and ADFC which has been an enormous task. Moving forward, Greg will now be focusing his entire attention of the activities and strategic direction of DFMC.

I would like to thank my fellow board members especially the committee chairs for the way they have performed in a very challenging year.

Yours sincerely,

Duncan McInnes
Chairman
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 2014.

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 (Appointed Nov 2013)
- James Geraghty
- Richard Gladigau (Appointed Jul 2013)
- Grant Sherborne (Appointed Nov 2013)
- Scott Sieben (Retired Sept 2014)
- John Macarthur Stanham (Retired Nov 2013)
- Trevor Middlebrook (Retired Nov 2013)
- Michael Roache (Retired Nov 2013)
- Ian Zandstra (Retired Nov 2013)

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 $589,000 (2013: $682,000).

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 FY 2013-14 financial year.

SUBSEQUENT EVENTS

There have been some subsequent events from the FY 2013-14 financial year which will impact the Co-operative in the FY 2014/15 financial year. This included the awarding of the Coles retail contract to Murray Goulburn in NSW, Norco in SEQ and Parmalat in Victoria. The outcome from this event will see a reduction in the commercial requirements of Milk from Dairy Famers Limited in FY 2014/15.

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 DFL, 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.

Andrew Burnett

Andrew Burnett was elected to the Board in 2011 and is currently the Chair of the Policy 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 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. He 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.

Steven Downes (Appointed November 2013)

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.

Rick Gladigau (Appointed July 2013)

Richard Gladigau joined the DFMC Board in June 2013. He 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 (Appointed November 2013)

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.

Scott Sieben (Resigned September 2014)

Scott Sieben joined the DFMC Board as a farmer director in November 2011. Prior to this, he represented DFMC as a ward representative.

He is a member of Australian Institute of Company Directors and is studying for his Diploma of Business Management.

Scott, along with his wife Jade, farm in Torrumbarry Northern Victoria milking 230 cows on 180 hectares. They have two children, Lincoln and Georgia.

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.

COMPANY SECRETARY

Greg Griffith joined Dairy Farmers Milk Co-operative 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.

PROCEEDINGS ON BEHALF OF THE ENTITY

Other than the proceedings by former members, 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

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 M[c]Innes	8	10	5	6	3	4	3	4
John J Bastian	9	10	5	6				
Andrew D R Burnett	10	10			4	4		
John W Bywater	10	10	6	6			4	4
Steven Downes	5	5	4	4	3	3		
James B Geraghty	10	10			4	4	4	4
Rick Gladigau	10	10			4	4	4	4
Grant Sherborne	5	5			3	3	4	4
Scott Sieben	10	10	6	6	4	4		
John Macarthur-Stanham	4	5	1	2				
Trevor Middlebrook	5	5			1	1		
Michael Roache	5	5			1	1		
Ian Zandstra	5	5						

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.

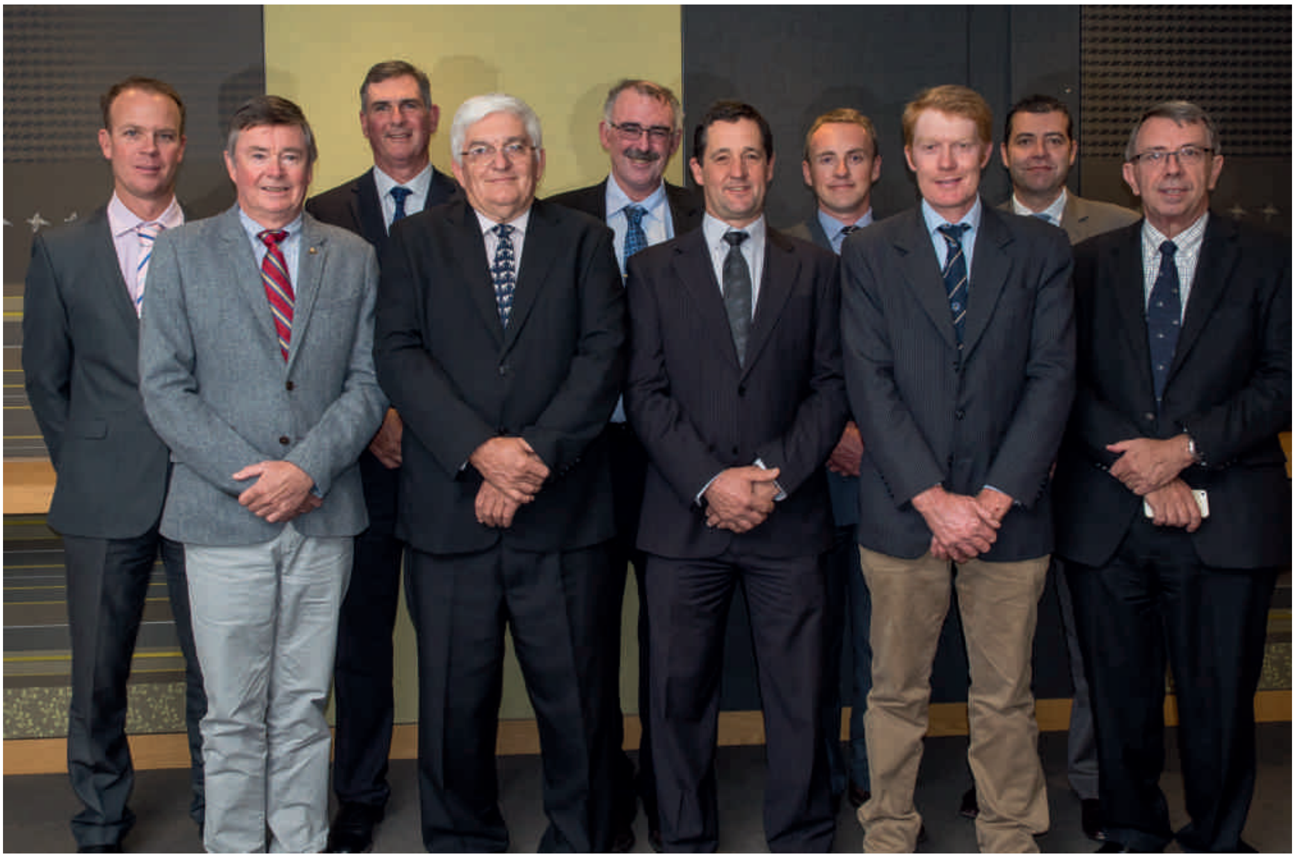
AUDITORS' INDEPENDENCE DECLARATION

The lead auditors' independence declaration for the year ended 30 June 2014 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	**J Bywater**
Chairman	Director

Sydney, 8 October 2014



From left to right:

Scott Sieben, John Bastian, Grant Sherborne, Duncan McInnes (Chairman), James Geraghty, Rick Gladigau, Steven Downes, Andrew Burnett, Greg Griffith, John Bywater

Grant Thornton

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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 2014, 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 J Archer

A J Archer
Partner - Audit & Assurance

Sydney, 8 October 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Corporate Governance

THE BOARD OF DIRECTORS

Board composition

The DFMC Board comprises 9 directors: 7 farmer directors and 2 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 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:

John Bywater (Chair)

John Bastian

Steven Downes

Scott Sieben

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 six 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

Rick Gladigau

Steven Downes

Scott Sieben

Grant Sherborne

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 that 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 six 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

Rick Gladigau

Steven Downes

Scott Sieben

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 the chairman of the board.

Composition

The committee currently comprises:

Rick 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 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 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 Lion 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 2014	Notes	2014 $'000	2013 $'000
Sales revenue	2	**256,481**	324,234
Cost of sales		**(256,481)**	(324,234)
Gross profit		**-**	-
Aggregation fee revenue	2	**1,100**	1,100
Operation fee revenue	2	**225**	225
Administration expenses		**(1,731)**	(1,836)
Net administration result		**(406)**	(511)
Investment revenue			
Dividend revenue – Equities	2	**377**	440
Interest revenue	2	**534**	653
Finance costs			
Financial institution and others	3	**(51)**	(45)
Other income			
Other Income	2	**66**	127
Net investment and financing result		**926**	1,175
Profit from continuing operations before income tax		**520**	664
Income tax (expense)/benefit	4	**69**	18
Profit from continuing operations after income tax before member distributions		**589**	682
Members' dividends payments* - ordinary	5	**(579)**	(647)
Profit for the year	14	**10**	35
Other comprehensive Income: Items that may be reclassified to profit or loss			
Net gain/(loss) on revaluation of financial assets net of tax	23	**678**	1,161
Net realised gains on financial assets		**109**	166
Other comprehensive income for the year		**787**	1,327
Total comprehensive income for the year attributable to members of the co-operative		**797**	1,362

* 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 income statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2014	Notes	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	6	**2,747**	14,007
Receivables	7	**639**	271
Other current assets	8	**10,569**	13
Total current assets		**13,955**	14,291
Non-current assets			
Financial assets	9	**9,406**	9,085
Receivables	7	**201**	251
Deferred tax assets	10	**-**	110
Total non-current assets		**9,607**	9,446
Total assets		**23,562**	23,737
Current liabilities			
Payables	11	**1,522**	1,537
Provisions	12	**102**	71
Total current liabilities		**1,624**	1,608
Non-current liabilities			
Provisions	12	**22**	16
Members' share capital*	13	**6,766**	7,917
Deferred tax liabilities	10	**157**	-
Total non-current liabilities		**6,945**	7,933
Total Liabilities		**8,569**	7,933
Net Assets		**14,993**	7,933
Equity			
Retained profits	14	**13,462**	13,452
Reserves	17	**1,531**	744
Total equity		**14,993**	14,196

* 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 balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2014

	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2012*	13,417	(583)	12,834
Profit attributable to the co-operative	35	-	35
Total other comprehensive income for the year	-	1,327	1,327
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	-	787	787
Balance at 30 June 2014*	**13,462**	**1,531**	**14,993**

* 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.

Statement of Cash Flows

For the year ended 30 June 2014	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		**257,635**	325,660
Payments to suppliers, employees and directors		**(258,291)**	(326,308)
Cash dividends received		**377**	384
Cash interest received		**490**	645
Dividends paid - ordinary shares		**(579)**	(647)
Net operating cash flows	22	**(368)**	(266)
Cash flows from investing activities			
Payment for investment in equities		**(309)**	(434)
Proceeds from sale of investments		**1,072**	1,445
Investment in maturity deposits		**(10,554)**	-
Loans to related entities		**50**	(251)
Net investing cash flows		**(9,741)**	760
Cash flows from financing activities			
Share subscriptions received	13	**247**	585
Repayment of share forfeit loans		**(1,398)**	(874)
Net financing cash flows		**(1,151)**	(289)
Net Increase/(decrease) in cash		**(11,260)**	205
Cash at the beginning of the financial year		**14,007**	13,802
Cash at the end of the year	6	**2,747**	14,007

The above cash flow statement 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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the Cooperatives 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.

(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) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Co-operative and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive income when incurred.

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives of 3-4 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(e)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(e) 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) 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.

(g) 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.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(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.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(m) Reporting period

The financial report has been prepared for the financial year ended 30 June 2014.

(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 2013

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

AASB 13 *Fair Value Measurement*

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances.

AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Co-operative has however included as comparative information the AASB 13 disclosures that were required previously by AASB 7 *Financial Instruments:*

Disclosures.

The co-operative has applied AASB 13 for the first time in the current year, see Note 23.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to AASB 119 *Employee Benefits*

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- eliminate the 'corridor method' and requires the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. As the Co-operative expects all annual leave for all employees to be used wholly within 12 months of the end of reporting period, annual leave is included in 'Current provisions' and not discounted when calculating the leave liability. This change has had no impact on the presentation of annual leave as a current liability in accordance with AASB 101

Presentation of Financial Statements.
AASB 119 has been applied retrospectively in accordance with its transitional provisions. The Co-operative has not restated its reported results in the comparative period presented and reported the cumulative effect as at 1 July 2012.
The application of AASB 119 did not have a material impact on the statement of cash flows for the year ended 30 June 2013 and 30 June 2014.

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. The standard is effective for annual reporting periods beginning on or after 1 January 2018. The Co-operative has chosen to early adopt AASB 9 for the year ended 30 June 2014 and has adjusted the comparatives for consistency of presentation.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.

(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
   - The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
   - The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:
   - Classification and measurement of financial liabilities; and
   - Derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.
Consequential amendments arising from AASB 9 are contained in AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments and AASB 2014-1 Amendments to Australian Accounting Standards.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On 24 July 2014, the IASB issued IFRS 9 Financial Instruments (2014) which marked the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 (2014):

- added requirements dealing with expected credit losses (impairment)
- amended the Standard's classification and measurement requirements by adding a new measurement category of fair value through other comprehensive income for particular simple debt instruments
- introduced a new mandatory effective date of accounting periods beginning on or after 1 January 2018

The AASB has already amended the effective date of AASB 9 to '1 January 2018' through its Amending Standard AASB 2014-1 Amendments to Australian Accounting Standards. It is expected that the AASB will issue the remaining amendments arising from IFRS 9 (2014) in the near future.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Co-operative.

Management anticipates that all of the relevant pronouncements will be adopted in the Co-operative's accounting policies for the first period beginning after the effective date of the pronouncement.

There are no standards that are not yet effective and that are expected to have a material impact on the co-operative in the current or future periods and on foreseeable future transactions.

(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.

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (i) the amount at which the financial asset or financial liability is measured at initial recognition, (ii) less principal repayments, (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and (iv) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.
Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Co-operative does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

I. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.
Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

II. Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

III. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Co-operative's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets. If during the period, the Co-operative sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire category of held-to-maturity investments would be tainted and would be reclassified as available-for-sale.

IV. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

V. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

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 judgements 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 'available for sale' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Notes to the Financial Statements

NOTE 2: REVENUE AND OTHER INCOME	2014 $'000	2013 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	**256,481**	324,234
	256,481	324,234
Other administration and investment revenue		
Aggregation fee revenue (b)	**1,100**	1,100
Operation fee revenue	**225**	225
Dividend revenue – Equities	**377**	440
Interest revenue – financial institutions and other	**534**	653
	2,236	2,418
Total revenue from continuing operations	**258,717**	326,625
Other income		
Other Income	**66**	127

(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 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 2014 was agreed at $1.1 million (2013: $1.1 million).

NOTE 3: EXPENSES

Profit before income tax includes the following specific expenses	2014 $'000	2013 $'000
Finance costs		
Members' share capital payments (Note 5)		
Special dividends	**579**	647
Financial institutions and others	**51**	45
	630	692

Notes to the Financial Statements

	2014 $'000	2013 $'000
NOTE 3: EXPENSES (continued)		
Profit before income tax includes the following specific expenses (continued)		
Employee and director benefits expense	**640**	658
Defined contribution superannuation expense	**107**	59

NOTE 4: INCOME TAX

	2014 $'000	2013 $'000
(a) Income tax expense reconciliation		
Profit before income tax	**79**	53
Income tax expense calculated at 30% (2013: 30%)	**24**	16
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	**174**	194
Other non-deductible expenditure	**97**	29
Franked dividend revenue	**(96)**	(82)
	199	157
Recognition of prior period tax losses not recognised in prior years	**(148)**	(195)
Under provided in prior years	**18**	56
Income tax expense/(benefit)	**69**	18
Average effective tax rate	**(23%)**	(21%)
Income tax expense analysis (b)		
Deferred tax		
Changes in deferred tax assets (Note 10)	**(51)**	(41)
Changes in deferred tax liabilities (Note 10)	**120**	59
Current tax	**69**	18
Income tax expense/(benefit)	**-**	-
	69	18
(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	**13,698**	14,098
Potential tax benefit at 30%	-	-
	4,109	4,230

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	2014	2013
(i)		
Payment date	**15/11/2013**	16/11/2012
Dividend per share	**$0.08**	$0.08
Per cent franked	**100%**	100%
Paid in cash	**579**	647
Total ordinary dividends paid during the financial year	**579**	647

Franking credits

(b) Franking credits available for subsequent financial years	**192**	581

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
(ii) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Interest payable at dividend rate

(c) In addition to the above, and prior to implementation of the ACF Scheme, interest was payable on share forfeit loans at the rate of ordinary dividend payable on ordinary shares, as disclosed in note 1k(i). No interest has been paid on share forfeit loans during the financial year ended 30 June 2014 or the previous financial year.

NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents	**2,747**	14,007

Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 4.10% and 5.90% (2013: 5.73% and 5.90%).

NOTE 7: RECEIVABLES

Current		
Other receivables	**537**	69
Amounts receivable from related parties	**102**	102
	639	271

Notes to the Financial Statements

NOTE 7: RECEIVABLES (continued)

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

2013	Gross Amount $	Past Due and Impaired $	Past Due but Not Impaired (Days Overdue) < 30 $	31-60 $	61-90 $	> 90 $	Within Initial Trade Terms $
Other receivables	171	-	-	-	-	-	171

	2014 $'000	2013 $'000
Non-Current		
Receivable from ADFC	**201**	251

NOTE 8: OTHER CURRENT ASSETS

	2014 $'000	2013 $'000
Prepayments	**15**	13
Term deposits	**10,554**	-
	10,569	13

NOTE 9: FINANCIAL ASSETS

	2014 $'000	2013 $'000
Available for sale financial assets – shares in listed corporations	**9,406**	9,085

(a) Investment in equities

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth to invest $8.5 million in the Australian equities market. For the year ended 30 June 2014, withdrawal of $2 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	2014 $'000	2013 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	397	348
Consulting and advisory costs	1	34
Employee provisions	44	27
Mark-to-market available for sale financial asset	-	-
Total deferred tax assets	442	409
(a) Movements in deferred tax assets		
Balance at the beginning of the year	409	673
Credited to the income statement	51	41
Credited to equity	-	(250)
(Under)/Over in prior year	(18)	(55)
Tax losses derecognised during the current year	-	-
Balance at the end of the year	442	409
(b) Timing of recovery		
To be recovered		
Within 12 months	435	389
After 12 months	7	20
	442	409
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	539	248
Unearned revenue	61	51
Total deferred tax liabilities	600	299
(c) Movements in deferred tax liabilities		
Balance at the beginning of the year	299	15
Charged to the income statement	11	37
Charged to equity	290	247
Balance at the end of the year	600	299
(d) Timing of settlement		
To be settled		
Within 12 months	600	299
	600	299
Total net deferred tax balances	(157)	110

NOTE 11: PAYABLES

Trade creditors and accruals	1,522	1,537

Notes to the Financial Statements

NOTE 12: PROVISIONS	2014 $'000	2013 $'000
Current		
Employee benefits	102	71
Non-current		
Employee benefits	22	16
Balance at the beginning of the year	87	56
Charged to the statement of comprehensive income	91	34
Amounts used	(4)	(3)
Balance at the end of the year	174	87

NOTE 13: MEMBERS' SHARE CAPITAL

	Number of Shares		Nominal Value	
	2014	2013	2014	2013
	#	#	$'000	$'000
Opening balance – shares of $1 each (fully paid)	7,917,035	8,205,176	7,917	8,205
Shares issued	11,174	8,971	11	9
Share levies (a)	235,427	576,839	236	577
Shares forfeited (b)	(1,398,027)	(873,951)	(1,398)	(874)
Closing balance – shares of $1 each (fully paid)	6,765,609	7,917,035	6,766	7,917
Balance at the end of the year	6,765,609	7,917,035	6,766	7,917

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 Act 1992 (as amended) 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 Act 1992 (as amended) 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 (currently suspended) or may guarantee capital through deductions from payments to members of milk supplies under the terms of its share acquisition program (currently suspended).

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

NOTE 14: RETAINED PROFITS

	2014 $'000	2013 $'000
Balance at the beginning of the year	**13,452**	13,417
Profit/(Loss) attributable to members	**10**	35
Balance at the end of the year	**13,462**	13,452

NOTE 15: COMMITMENTS FOR EXPENDITURE

The Co-operative had $nil commitments at the end of the financial year (2013: $nil).

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Co-operative has a contingent liabilities or assets as at 30 June 2014 of nil (2013: no contingent liabilities)

NOTE 17: RESERVES

Financial assets reserve

The financial assets reserve records revaluation increments and decrements (that do not represent impairment write-downs) that relate to financial assets that are classified as available-for-sale. The balance as at 30 June 2014 was $1,531k (2013: ($744k)).

Notes to the Financial Statements

	2014 $	2013 $
NOTE 18: AUDITORS' REMUNERATION		
Amount received, or due and receivable by Grant Thornton for audit of the financial report	**18,000**	15,000
Amount received, or due and receivable by Grant Thornton for tax services	**26,527**	69,387

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 G Macarthur-Stanham, J B Geraghty, D A McInnes (Chairman), T J Middlebrook, M P Roache, G Sherborne, S D Sieben, Rick T Gladigau and I H Zandstra.

(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	2014	2013
	$	$
Short-term employment benefits	**638,828**	657,607
Post-employment benefits (superannuation)	**106,742**	58,905
Total key management personnel compensation	**745,570**	716,512

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.

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 (both currently suspended)
- 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 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)
- Aggregation fee revenue derived from DFL (note 2)
- Operation fee to DFL

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $100,000 (2013: $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) are related parties for the purposes of Competition and Consumer Act and have directors in common. DFMC and ADFC have entered into a Management Service Agreement to which DFMC has agreed to provide all management services to ADFC. In addition, DFMC has provided ADFC with a Loan of $200,000 payable by agreement by 2017.

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).

NOTE 22: CASH FLOW RECONCILIATION

	2014 $'000	2013 $'000
Profit attributable to members	**10**	35
Non-cash items in operating profit		
Interest on share portfolio	**(16)**	(8)
Deferred tax liability recognised in reserve	**(289)**	(306)
Fund management fee	**50**	50
Movement in assets and liabilities		
(Increase) in other assets	**(2)**	(1)
Increase in deferred tax	**267**	287
(Decrease) in payables and accruals	**(15)**	(175)
(Increase) in receivables	**(409)**	(180)
Increase in provisions	**36**	32
Net cash inflow/(outflow) from operating activities	**(368)**	(266)

Shares forfeited during the year totalling $1.398 million (2013: $0.874 million) were transferred paid 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	2014	2013
		$'000	$'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	2,747	14,007
Loans and receivables	7	639	273

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	2014 $'000	2013 $'000
Financial assets			
Cash and cash equivalents	6	2,747	14,007
Loans and receivables	7	639	273
Available-for-sale financial assets:			
— at fair value:			
– listed investments	9	9,406	9,085
Total financial assets		12,792	23,366
Financial liabilities			
Financial liabilities at amortised cost:			
— trade and other payables	11	1,472	1,537
Total financial liabilities		1,472	1,537

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	
	2014	2013	2014	2013	2014	2013	2014	2013
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities due for payment								
Trade and other payables (excluding est. annual leave)	**1,472**	1,537	-	-	-	-	**1,472**	**1,537**
Total contractual outflows	**1,472**	1,537	-	-	-	-	**1,472**	**1,537**
Less bank overdrafts	-	-	-	-	-	-	-	-
Total expected outflows	**1,472**	1,537	-	-	-	-	**1,472**	**1,537**
Financial assets — cash flows realisable								
Cash and cash equivalents	**2,747**	14,007	-	-	-	-	**2,747**	14,007
Trade, term and loan receivables	**639**	273	**201**	251	-	-	**840**	524
Other investments	-	-		-	**9,406**	9,085	**9,406**	9,085
Total anticipated inflows	**3,386**	14,280	**201**	251	**9,406**	9,085	**12,993**	23,616
Net (outflow)/inflow on financial instruments	**1,914**	12,743	**201**	251	**9,406**	9,085	**11,521**	22,079

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	2014 $'000	2013 $'000
Banks		**3,346**	1,859
Commercial services & supplies		**510**	489
Diversified financials		**1,036**	992
Energy		**729**	678
Food & drug retailing		**783**	832
Health care equipment & services		**218**	193
Insurance		**414**	497
Materials		**876**	866
Pharmaceuticals & Biotechnology		**351**	366
Real estate		**328**	372
Software & services		**297**	275
Telecommunication services		**311**	321
Transportation		**208**	244
Utilities		**-**	-
Cash Management Account		**209**	1,101
		9,616	9,085

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 2014	**$**	**$**
+/- 2% in interest rates	**+/-282**	**+/-282**
+/-10% in listed investments	**N/A**	**+/-865**
Year ended 30 June 2013		
+/- 2% in interest rates	**+/- 262**	+/- 262
+/-10% in listed investments	**N/A**	+/- 965

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.

		2014		2013	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	Footnote	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	(i)	2,747	2,747	14,007	14,007
Trade and other receivables	(i)	840	840	524	524
		3,587	3,587	14,531	14,531
Available-for-sale financial assets:					
– at fair value:					
– Listed Investments		9,406	9,406	9,085	9,085
Total available-for-sale financial assets	(iii)	9,406	9,406	9,085	9,085
Total financial assets		12,993	12,993	23,616	23,616
Financial liabilities					
Trade and other payables	(i)	1,472	1,472	1,559	1,559
Members' share capital	(iv)	6,766	6,766	7,917	7,917
Total financial liabilities		8,238	8,238	9,476	9,476

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 available-for-sale financial assets, closing quoted bid prices at the end of the reporting period are used. In determining the fair values of the unlisted available-for-sale financial assets, 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 $0.156 million ($1.161m in 2012/13)

2014	**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**
Financial assets			
Available-for-sale financial assets:			
— listed investments	**9,406**	-	-
	9,406	-	-

2013	**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**
Financial assets			
Available-for-sale financial assets:			
— listed investments	9,085	-	-
	9,085	-	-

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

No matters or circumstances of significance have arisen 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 director's of the Co-operative declare that:

(a) the financial statements and notes set out on pages 15 to 37 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 2014 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, 8 October 2014

Grant Thornton

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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 2014, 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 company.

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 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 Company'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 Company'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 2014 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 2014 and of its performance for the year ended on that date, in accordance with the requirements of the Co-operatives National Law and Co-operatives Regulation 2005.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A J Archer

A J Archer
Partner – Audit & Assurance

Sydney, 8 October 2014

Dairy Farmers
milk co-operative

Dairy Farmers milk co-operative

www.dfmc.org.au