

Annual Report 2016





12/60 Carrington Street
Sydney, NSW 2000

T: 02 8120 4431
F: 02 8244 4635
www.dfmc.org.au

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

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Chairman

- Duncan McInnes

Directors

- John Bastian
(Retired Nov 2015)
- Andrew Burnett
- John Bywater
- Steven Downes
- James Geraghty
- Richard Gladigau
- Grant Sherborne
- Cameron Hodge

Bankers

- Australia and New Zealand
Banking Group

Auditors

- Grant Thornton Audit Pty Ltd

Solicitors

- Addisons Lawyers

Executive Officer & Secretary

- Greg Griffith

Glossary

Organisational	
DFMC	Dairy Farmer's Milk Co-operative
LDD	Lion Dairy and Drinks
RM	Regional Manager
WRAC	Ward Representative Advisory Council
FSO	Farm Services Officer
DFL	Dairy Farmers Limited
MG	Murray Goulburn
ACF	Australian Co-operative Foods

Regions	
Northern	Comprises Far North Queensland, South East Queensland and New South Wales (excluding Riverina)
Southern	Comprises Victoria, Riverina and South Australia
FNQ	Far North Queensland
SEQ	South East Queensland
NSW	New South Wales (excludes Riverina)
VIC	Victoria (includes Riverina)
SA	South Australia

General	
\$ per kg Fat	Dollars per kilogram of fat
\$ per kg MS	Dollars per kilogram of milk solids
\$ per kg Protein	Dollars per kilogram of protein
AFD	Anticipated Full Demand refers to the milk supply required to align DFMC's milk intake with the commercial needs of LDD
BMCC or SCC	Bulk Milk Cell Count or Somatic Cell Count refers to the concentration of white blood cells in the bulk milk and is measured as cells/ml
Cfu	Colony forming unit
Cpl	Cents per litre
DMI	Domestic Milk Incentive
MRL	Maximum Residue Levels
MS	Milk solids
MSA	Milk Supply Agreement
RBD	Rebate on Business Done
Reference litre	For comparative purposes, a reference litre comprises 4% Fat and 3.2% Protein
RAM	Ruminant Animal Material
Simply Perfect	LDD Farm Quality Assurance Program
TPC	Total Plate Count is the concentration of viable micro-organisms in a sample such as bacteria and is measured as cfu/ml

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Our core purpose is to look after our farmers by providing value and security.

- Duncan McInnes, DFMC Chairman



Chairman's Report



As chairman it gives me great pleasure to present to you an overview of DFMC and its activities over the last twelve months.

Weather conditions have been favourable overall with most regions' outlook for spring in a very good light. The forecast of grain prices dropping is a confidence boost for our input prices.

The milk price outlook for our southern members is not so rosy with the lowest price in many years to contend with. While we are close to the highest price paid in the two southern regions the reality is that it will be a very tough twelve months ahead. In our central region the price drop of 2 Cpl while not appreciated was far better than the major competitor who dropped in excess of 5 Cpl. The two Queensland regions have prices retained at the previous year's level albeit with high input costs the margins for most farms are tight.

Our present Milk Supply Agreement (MSA) with Lion is due to expire in June, 2019. Over the last six months we have met with Lion a number of times to negotiate a way forward post 2019. While these discussions have been frank and open we have at this point of time yet to confirm a future relationship. It is imperative that this is achieved well before June, 2019.

This year has seen a solid profit for the organisation returning in excess of \$420,000 for the year. Prudent spending and dividends on our investments have contributed to this result. The interest received on our cash investments are at an all-time low which has impacted on our result. Our dividend payment to members of 12% and the rebate paid on milk supplied last November of \$1 for every 500 litres produced has been welcomed by all I assume. We look forward to paying similar amounts in both categories later this year.

There have been a number of changes to our Ward Rep Advisory Committee (WRAC) this year with a healthy turnover of membership. It is pleasing to see new younger faces participating and they bring with them different ideas to challenge the board. We sincerely thank those who have contributed over a number of years for their time and effort. Both the Board and WRAC have undertaken a course on Negotiation & Influencing and all have found this beneficial.

Our working relationship with Lion continues to be positive with help coming from all levels of their business. Peter West as Managing Director has led a revived business and my personal thanks go to him and his staff.

We have once again been very fortunate to have committed staff working for DFMC. To Greg and team of Andrew, Tony and Caroline we thank you for your time and effort over the last twelve months. Your preparedness to go over and beyond what has been required has been much appreciated by the board and I am sure the members as well.

At the end of July Greg gave notice that he had accepted a role elsewhere starting in early October. After seven and a half years in the role as Executive Officer of DFMC to say that Greg will be missed is an understatement. His drive and challenges to the board has been extremely appreciated by not only the present board but I'm sure by all past board members. His commitment to the co-op has resulted in better terms and conditions for our members.

To Rick Gladigau I offer my thanks on behalf of the board for his last four years as a director. His involvement especially in the last three years as chairman of the Milk Supply Committee has helped to deliver better outcomes for our members. To my fellow board members I thank them for their effort and support during the last twelve months. Their dedication in their various roles has made my task easier I'm sure and echo the sentiments of members.

Yours sincerely,



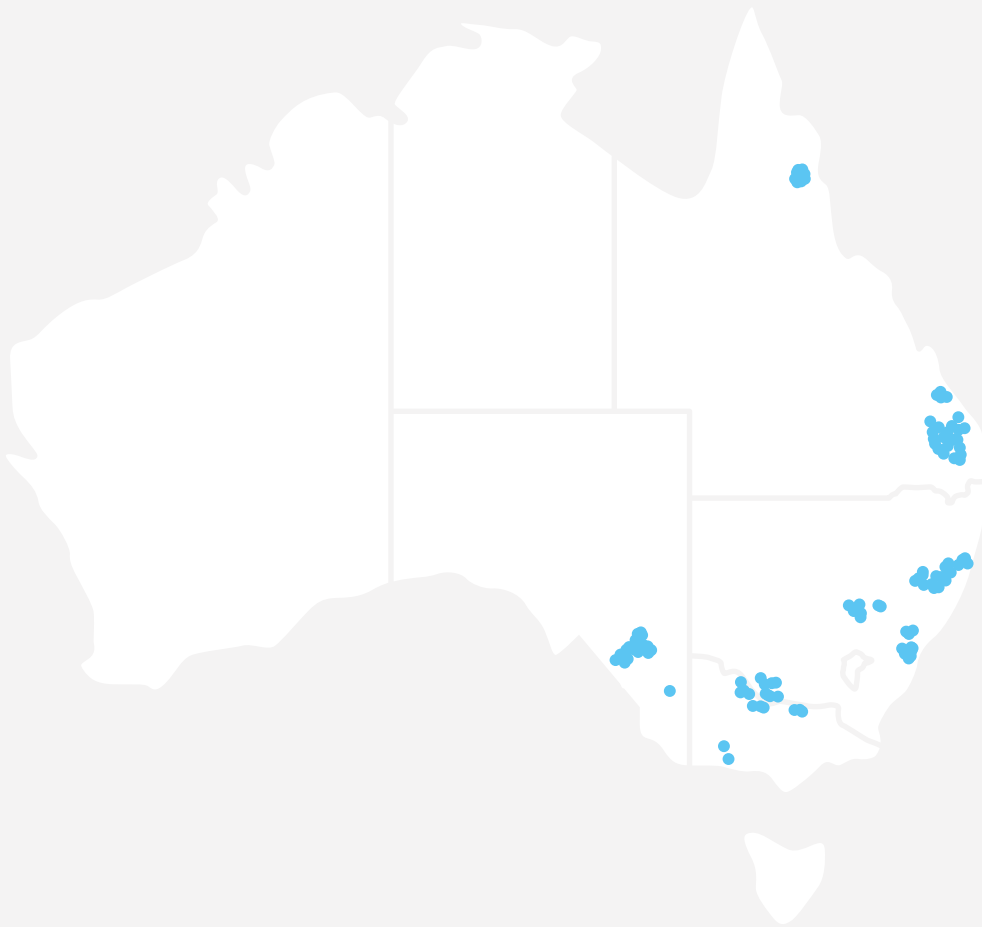
Duncan McInnes
Chairman
Dairy Farmers Milk Co-operative



Our working relationship with Lion continues to be positive with help coming from all levels of their business. Peter West as Managing Director has led a revived business and my personal thanks go to him and his staff.

Our Co-operative in 2016

From Malanda in Queensland to Nowra in New South Wales and Murray Bridge in South Australia our co-operative of farms covers the length and breadth of Australia's eastern seaboard.

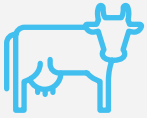


Long Service Members

Region	Over 50 years	Over 75 years	Over 100 years
FNQ	4	3	4
SEQ	1	4	2
NSW	5	3	3
VIC	2	6	-
SA	5	2	-
Total	17	18	9

2015/16 Milk Production Overview

Region	No of farms	Litres (000,000)
FNQ	46	47m
SEQ	51	38m
NSW	52	67m
VIC	37	79m
SA	31	41m
Total	217	272m

**217**

Farms

**463**

Members

**14**

WRAC Members

**5**

Regions

**4**

Staff Members

**8**

Board Members

**1,238**Average Milk Volume
Per Supplier (ML)**272.5**Total Farm Milk
Intake Volume (ML)



Executive Officer's Report

The 2015/16 season saw a vast improvement from the year prior as overall milk production increased on the back of strong reasonable milk prices and favourable weather conditions.

For the Northern regions: FNQ's production was in line with the Regions Anticipated Full Demand (AFD) with an annual production of 53m litres (up from 52m litres from the year prior); SEQ, NSW and SA held steady from 2015/16 with production of 40m, 70m and 34m litres respectively. However, the Co-operative's growth occurred in Victoria/Riverina with milk volumes increasing by 35% to 77m litres.

The increase in milk production in the Victoria/Riverina region was mainly due to the return of a number of suppliers who had left the Co-operative the year before based on our strong milk price and the ability to secure longer term supply contracts, coupled with the ability to lock in a portion of their milk at the announced three year milk price for that year.

Overall DFMC total milk production was 274m litres compared to 259m litres from the year prior.

Milk Price

Across all regions DFMC experienced a 2.20% decrease in the total Cpl rate paid in the 2015/16 season vs. that of 2014/15 i.e. the Cpl rate paid for 2015/16 provided an average rate (taking into account the actual paid base rate plus incentives) of 51.79 Cpl vs. an average rate of 52.96 from 2014/15.

In individual regions the rates paid varied as follows:

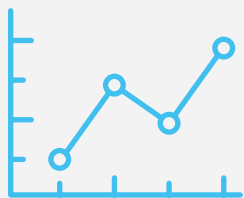
	FNQ	SEQ	NSW	SA	VIC
2015/16 (Cpl)	58.61	57.79	53.22	44.14	45.99
2014/15 (Cpl)	58.35	57.29	53.30	46.60	48.13
Variance (%)	0.44%	0.92%	-0.15%	-5.28%	-4.44%

Based on our pricing methodology for the Northern regions (FNQ, SEQ & NSW) that we pay a competitive price in the market place, our pricing analysis meant that the price payable from the 2014/15 season was competitive compared to other processors in the region and as such our announced base prices for the 2015/16 season were unchanged from the year prior. The small variances in the amount paid can be attributed to the difference in the average components and incentives paid.

Our Southern regional farmers (Victoria/Riverina and South Australia) experienced a decrease in the total price payable from the year prior of 4.86%. Our pricing methodology for the South is benchmarked against the Murray Goulburn Flat Milk Incentive (MG) i.e. DFMC provides a fixed price option which is based on the MG full year payout and a variable price option which guarantees to be 1 Cpl ahead of the MG price.



Overall DFMC total milk production was 274m litres compared to 259m litres from the year prior.



Significant cost saving measures were put in place so that the Co-operative's operational expenses were significantly favourable compared to budget.

Farmers should also note that the world dairy market has a strong influence on Australian dairy sector returns and milk prices. In reviewing the market leading into the 2015/16 season, the world dairy market was heading to the bottom of the current market cycle, with high stocks in the hands of exporters overhanging the market. This market volatility led to an optimistic MG opening price of 40.30 Cpl with an even more optimistic closing price of 43.55 Cpl. DFMC provided farmers with three price point options:

- A 1 year Variable price with the guarantee to be 1 Cpl ahead of MG of 41.75 Cpl but subject to change;
- A 1 year Fixed price of 43.20 Cpl; and
- A 3 year Fixed price of 43.70 Cpl for 50% of a farmers milk with the balance of their milk production paid on either the 1 year Variable or Fixed price option

Three farmers chose the three years option with the balance of the milk paid at the 1 year fixed price, three farmers chose the Variable price option and the remaining farmers chose to lock in on the 1 year fixed price option.

The decision by the majority of farmers to lock in the price was quite profound as the prices tabled by MG to their farmers was not achievable, resulting in MG decreasing the price payable before introducing a Milk Supply Support Package program that lifted the price, but in doing so thrust a 3 year loan payment program onto suppliers to be deducted from future milk cheques.

DFMC provides pricing methodology has provided value and security by offering certainty in the face of fluctuating market conditions. Our long-term supply agreement with Lion Dairy and Drinks (LDD) provides the opportunity for our farmers to plan for the future based on income surety and solid market information.

Financial Performance

DFMC had a continuing operating profit before income tax & dividend payments of \$423,000. This is a decrease from the year prior, however it should be noted that in last year's financial accounts, the DFMC Board decided to recognise a provision back into income which contributed to and inflated the operating profit for that year. The 2015/16 reported profit was in line with the Co-operative's expectations, however we experienced a decrease in operating revenue due to reduced interest earnings. Significant cost saving measures were put in place so that the Co-operative's operational expenses were significantly favourable compared to budget.

The DFMC share portfolio at the start of the financial year was \$9.5m and this remained the same at year's end. Members should note that DFMC realised some financial gains based on the sale of some shares. Overall the portfolio performance was +2.37% compared to the S&P ASX 200 Index of -4.13%.

DFMC continued to provide members with a dividend payable on capital. For the 2015/16 financial year, members received a 12 cent, 50% franked dividend which equated to a total payment of \$399,000. In addition to this, the Co-operative also paid a Rebate on Business Done of \$1 for every 500 litres of milk supplied for the 2014/15 financial year and this provided farmers with an approx. 0.20 Cpl above all other incentives paid.

Farmer Benefits

At DFMC you are represented by a committed and experienced team of like-minded dairy farmers, thus providing you with a seat at the negotiation table. In all regions, DFMC guarantees the milk off-take for all your milk paid at a T1 competitive price underpinned by long-term, secure milk agreements with LDD. With the assistance of LDD, in 2015/16 DFMC continued to offer the Refrigeration and generator support scheme. DFMC also offered financial loans to farmers. We also entered into

a partnership with Scibus (Cows-R-Us) to offer farmers a subsidised program that is tailored to specific farmers needs to assist them managing milk productions but with a focus on bottom line returns. DFMC also had a community focus by financially contributing to regional hubs via way of sponsorship and support for country shows.

Partnerships

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

Next Financial Year

Planning for 2016/17 Financial Year is well underway. DFMC and LDD have already released very competitive milk pricing which should provide our members with a sense of comfort and stability as the Global Dairy Trade Index continues to tumble. This will no doubt place pressure on farmgate milk price for dairy farmers supplying more export oriented processors.

As most members are aware, the current MSA is due to expire in 2019. DFMC and LDD have met on a number of occasions to discuss a new agreement and in any negotiation, parties' desired outcomes come from different angles. Whilst there is still some work to go, both groups are working diligently, professionally and respectfully. DFMC will keep members well-informed of developments and seek feedback along the journey.

Time's Up

This will be my last Executive Officers report. I was appointed to the position in February 2009 as the Co-operative's inaugural staff member and by then the sale of Dairy Farmers Ltd to National Foods had been completed.

DFMC positioned itself ready to enter into a supply management model that was always going to present supply management challenges for DFMC and our farmers. Over the last 7 ½ years I have seen great change in the Dairy Industry with major movement of retail contracts which had a negative impact on DFMC milk pool. I am proud to say that during all the upheaval and mounting pressure to capitulate to corporate pressures, the Board stuck by the principle in the Milk Supply Agreement and acted with integrity ensuring all members were represented

and competitive terms provided. Although this has result in a vastly different looking Co-operative in terms of the milk volume supplied and the number of farmers it represents, those who are active suppliers today are seeing the true benefits of a regional commercial needs concept and a supply management model that provides stability and growth opportunities.

Acknowledgements

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

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

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

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

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

And of course our members who are the backbone of the business and the reason why the Co-operative does what it does. I wish you every success in the years ahead.

Yours sincerely,



Greg Griffith
Executive Officer
Dairy Farmers Milk Co-operative



Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2016.

Directors

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

- Duncan McInnes (Chairman)
- John Bastian (Retired Nov 2015)
- Andrew Burnett
- John Bywater
- Steven Downes
- James Geraghty
- Richard Gladigau
- Grant Sherborne
- Cameron Hodge

Principal Activities

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

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

Review of Results and Operations

Profit from continuing operations after income tax before member distributions of \$427 thousand (2015: \$1.272 million).

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

Dividends

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

Significant Changes in the State of Affairs

There have been no significant changes to the state of affairs during the 2015/16 financial year.

Subsequent Events

Lion Dairy & Drinks (LDD) has increased their commercial milk requirements for DFMC which will see an increase in the commercial requirements of Milk for LDD in 2016/17 financial year.

DFMC's Executive Officer announced his resignation effective 30th September 2016. The Board is in process of identifying and appointing a new EO.

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

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-operative's operations.

DFMC's Executive Officer announced his resignation effective 30th September 2016. The Board is in process of identifying and appointing a new EO.

Environmental Performance

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

Director Information (Sitting Directors)



Duncan McInnes

Chairman

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

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

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

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

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Andrew Burnett

Director

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

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

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



John Bywater

Independent Director

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.

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Steven Downes

Director

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.



James Geraghty

Director

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.

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Richard Gladigau

Director

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

Director

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.

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Cameron Hodge

Director

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

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

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

They currently produce around 3.2 million litres from 350 cows.

Company Secretary

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

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

Indemnification and Insurance

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

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

Proceedings on Behalf of the Entity

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

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

Rounding of Amounts

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

Meetings of Directors

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

	Board Meetings		Audit, Finance and Governance		Member Services and Milk Supply		Milk Price and AFD	
	A	B	A	B	A	B	A	B
Duncan A McInnes	12	12	-	-	-	-	-	-
John J Bastian	6	6	2	2	-	-	-	-
Andrew D R Burnett	12	12	-	-	3	3	-	-
John W Bywater	12	12	4	4	-	-	4	4
Steven Downes	12	12	4	4	-	-	3	3
James B Geraghty	12	12	-	-	3	3	3	3
Richard Gladigau	12	12	-	-	-	-	4	4
Grant Sherborne	12	12	2	2	3	3	-	-
Cameron Hodge	12	12	2	2	3	3	-	-

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 2016 as required by section 307C of the Corporations Act 2001 is set out on page number 17.

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



Duncan McInnes
Chairman

A handwritten signature in dark ink, appearing to read 'D. McInnes'.

7 September 2016



John Bywater
Independent Director

A handwritten signature in dark ink, appearing to read 'J. Bywater'.

7 September 2016



DFMC Current Sitting Directors

From left to right: John Bywater, Cameron Hodge, Rick Gladigau, Andrew Burnett, James Geraghty, Duncan McInnes (Chairman), Grant Sherborne and Steven Downes.

Auditors' Independence Declaration



Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

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 2016, 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

P J Woodley
Partner - Audit & Assurance

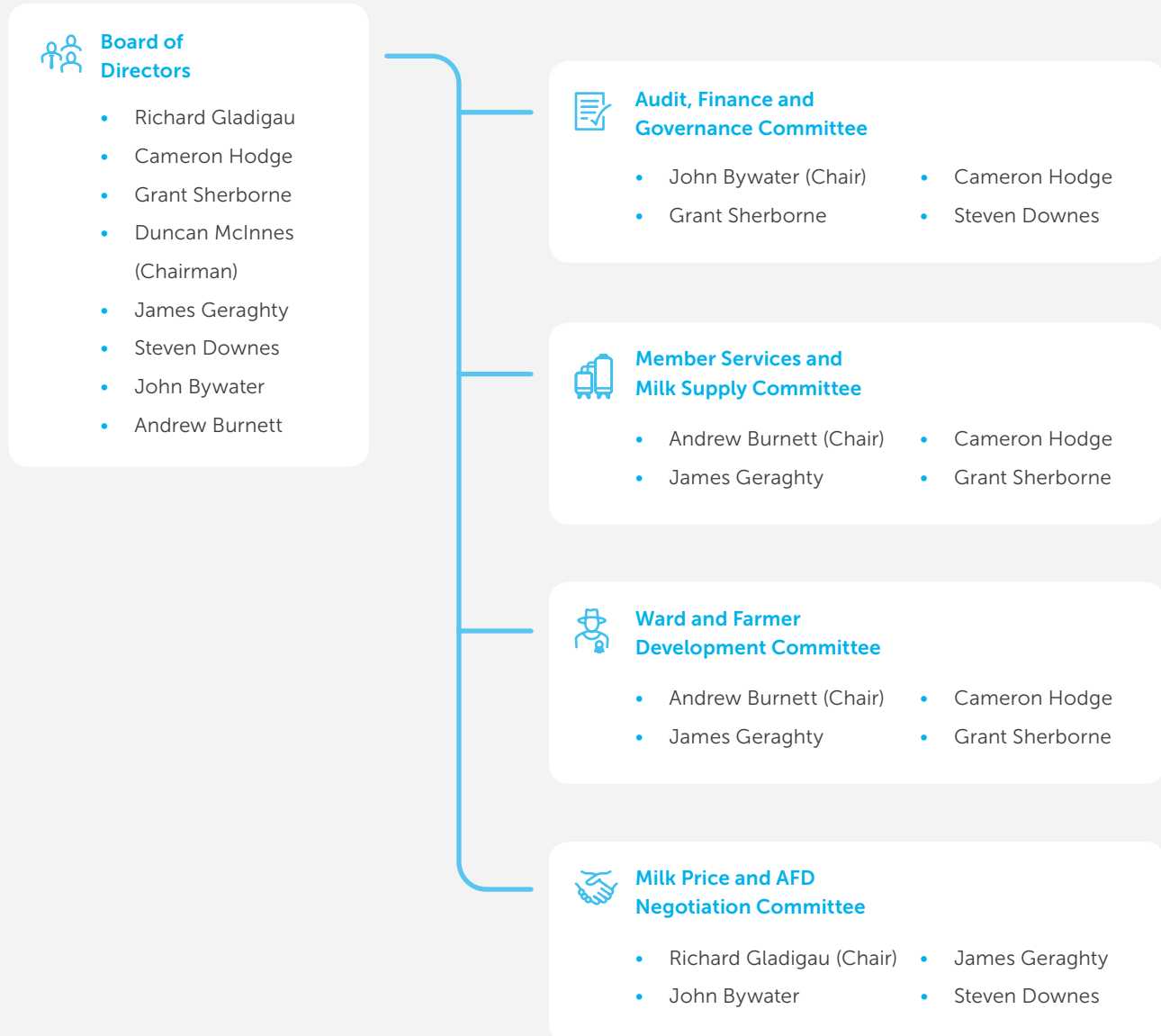
Sydney, 7 September 2016

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Corporate Governance



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.



Board Composition

Up to and including November 2015, the DFMC Board comprised nine directors: seven farmer directors and two independent directors. After November 2015, the number reduced to eight directors, with the number of independent directors reducing to one.

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

Board Responsibilities

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

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

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



Audit, Finance and Governance Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- John Bywater (Chair)
- Grant Sherborne
- Cameron Hodge
- Steven Downes

Access and Reporting

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

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

Responsibilities

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

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

External Audit Appointment and Supervision

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



Member Services and Milk Supply Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- Andrew Burnett (Chair)
- James Geraghty
- Cameron Hodge
- Grant Sherborne

Responsibilities

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

Communication with Members

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

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



Ward and Farmer Development Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- Andrew Burnett (Chair)
- James Geraghty
- Cameron Hodge
- Grant Sherborne

Responsibilities

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

WRAC

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

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

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

Farmer Development

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

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



Milk Price and AFD Negotiation Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- Richard Gladigau (Chair)
- John Bywater
- James Geraghty
- Steven Downes

Access

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

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

Responsibilities

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

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