Annual Report
2017

Dairy Farmers milk co-operative

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Sydney, NSW 2000

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

Contents

Chairman

- Duncan McInnes

Directors

- Andrew Burnett
- John Bywater
- Steven Downes
- James Geraghty
- Grant Sherborne
- Cameron Hodge
- Richard Gladigau (resigned Sept 2016)
- Adrian Dauk (appointed Nov 2016)

Bankers

- Australia and New Zealand Banking Group

Auditors

- Hill Rogers

Solicitors

- Addisons Lawyers

Executive Officer & Secretary

- Mark Kebbell

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

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

\- Duncan McInnes, DFMC Chairman

Chairman's Report

It is with great pleasure that I present to you the Chairman's Report on behalf of the Dairy Farmers' Milk Co-Operative Board.

In October, 2016 we welcomed Mark Kebbell as our Executive Officer replacing Greg Griffith who had given notice two months earlier. Mark has brought with him much business experience which has proved to be an asset to our co-op. We also welcomed Dominic Baxter as our Southern Regional manager who has fitted in very well.

The co-op has had a very sound financial year showing a profit of $260,000 before income tax, dividend and rebates. The dividend once again was 12% and a rebate of $1 per 500 litres supplied. This was the third of three years we indicated that we would pay at least a 10% dividend in an effort to attract more reinvestment. This last year the level of reinvestment was not as high as previous years and the board has decided to revert to a more commercial rate of dividend as flagged at supplier meetings.

One of the most significant roles the board undertakes is to negotiate milk price on behalf of members with Lion Dairy & Drinks (LDD) within the wording of the Milk Supply Agreement (MSA).

The price received for each region has to be competitive within that region which may or not be what the farmer needs to operate profitably. This year, especially in the southern region, it has been a struggle for many farmers even though the price was competitive. The price in the two Queensland regions held and was 2 cents down in New South Wales, which with a drop in commodity input prices helped insulate the milk price drop for the majority of farmers.

As most farmers would be aware there was a Senate Inquiry into the Dairy Industry earlier this year and an Australian Competition and Consumer Commission (ACCC) Review which is due to be presented to the Federal Government in early November, 2017. DFMC have had two meetings with Mick Keogh, the Agricultural Commissioner of the ACCC, as well as presenting a position paper in writing to them. The importance of collective bargaining groups was indicated strongly to the ACCC and we hope our views are included in the recommendations to government. We have also met with a number of politicians to ensure our case is heard.

There have been a number of meetings with LDD regarding an extension of the MSA which expires 30th June, 2019. At the time of writing I'm pleased to report we have made great progress on negotiating an extension.

The Board decided prior to calling for nominations for the Central NSW Region to reduce the number of directors from two to one in that Region. It is my intention to step down from the Board at this year's Annual General Meeting and I would expect the board not to fill the casual vacancy for South East Queensland. This would mean the composition of the Board would be one director from each of the five regions plus one independent director.

Our WRAC members have once again met mid-year as well as at the Annual General Meeting for training and update of the Board's plans. We thank them for their time, effort and contribution to the co-op.

I would like to thank Peter West, Managing Director of Lion Dairy & Drinks and his staff, at all levels, who have helped DFMC in its role in the last twelve months. The road travelled has had some rough patches but we have moved forward in a professional manner.

To our Executive Officer Mark, I thank him for his diligent work ethic and I'm sure he would agree that he has learnt a great deal about the dairy industry in the last twelve months. In the transition period between Greg Griffith leaving and Mark Kebbell commencing duties Chris Clark and Tony Burnett, undertook between them, the various responsibilities of our Executive Officer and the Board is much indebted to them for same. This extra workload by them was in addition to their normal duties. Tony once again continues to successfully liaise with our farmers in the northern regions with his wealth of experience both at a farmer level and industry representation. To Dominic Baxter we appreciate your time and effort in your role in the southern regions.

To my fellow board members and in particular committee chairmen Andrew Burnett, Cameron Hodge and John Bywater I thank you for your time and commitment for the benefit of our co-op.

On the 24th September, 1982 at the age of 29, I was elected as a director of the Queensland Farmers' Co-operative Association and apart from a six month period I have represented farmers as a co-operative board member since then. In that 35 years, I have made many friends (and a few enemies) but I have always tried to do things for the long term benefit of farmers. There have been many hard decisions made but that is part of the role that these positions require.

To all members of my family, especially Mary, I thank them for their support as there is no way the journey could have been undertaken without their support.

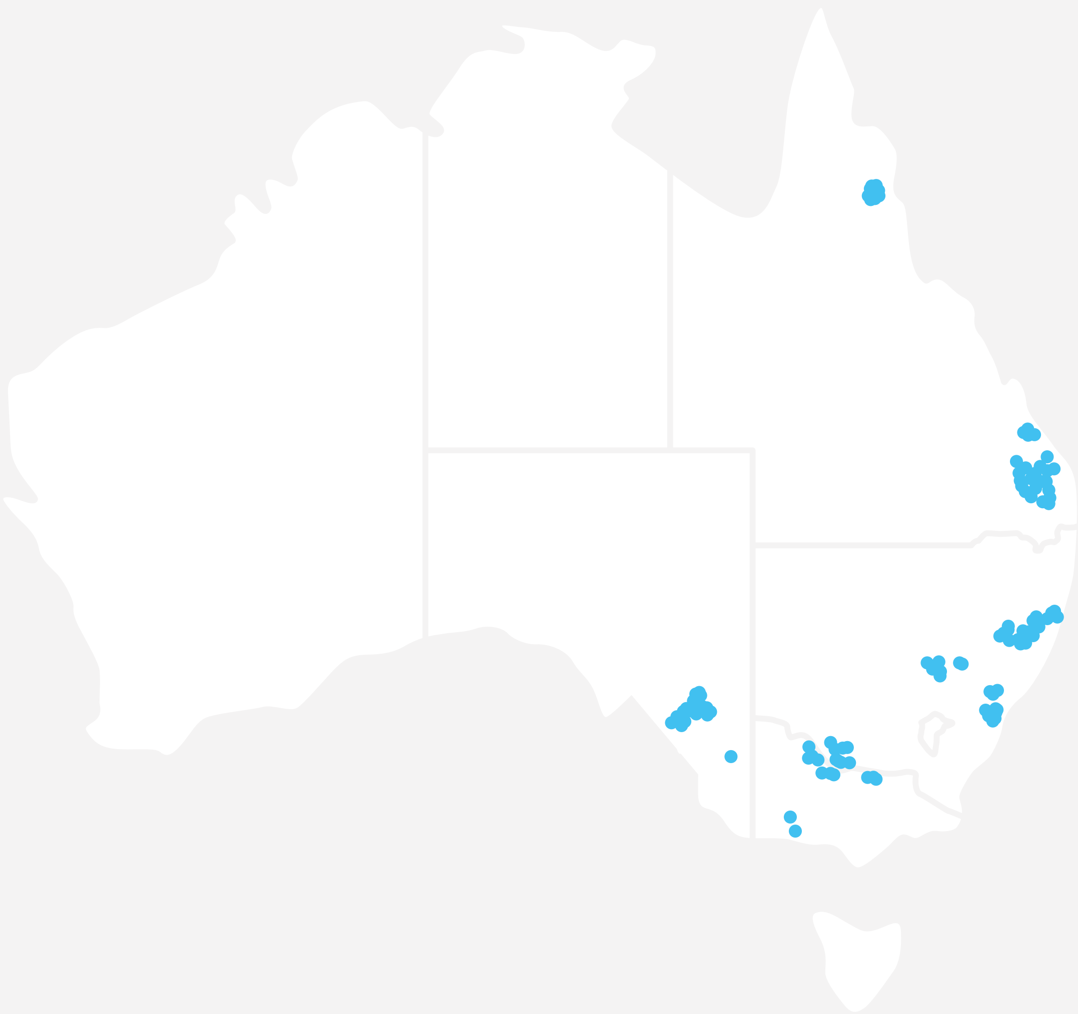
With the Board and management team of DFMC, along with the progress on a new agreement with Lion Dairy & Drinks, I believe that moving forward the outlook for our co-op is positive for members.

Yours sincerely,

Duncan McInnes
Chairman
Dairy Farmers Milk Co-operative

One of the most significant roles the board undertakes is to negotiate milk price on behalf of members with Lion Dairy & Drinks.

Our Co-operative in 2017



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.

2016/17 Milk Production Overview

Region	No of farms	Litres (000,000)
FNQ	48	53m
SEQ	51	42m
NSW	54	73m
Vic	39	69m
SA	31	32m
Total	223	269m

223
Farms

448
Members

12
WRAC Members

5
Regions

3
Staff Members

8
Board Members

1,203
Average Milk Volume Per Supplier (ML)

269
Total Farm Milk Intake Volume (ML)

Executive Officer's Report

I joined DFMC in October 2016, just before the AGM and Convention and not long after was attending end of year functions in all of our regions around the country. It was a terrific way to meet so many members in a short period of time and begin the immersion into the DFMC and the dairy industry.

Obviously the issues facing farmers vary dramatically from region to region but the co-operative ethos that drives how we approach issues is strong and fundamental to DFMC providing value and security to our members is a constant across all regions. Members are why the DFMC exists and I can see the role we play in representing farmers with processors being replicated as, in a changing Australian dairy landscape, the traditional vertically integrated co-operative is more the exception than the rule.

The dairy industry in Australia is going through a period of unprecedented change.

Production

Seasonal conditions saw overall production down a little to 269 million litres (ml) from 273 ml the year prior. While FNQ was down slightly for the year, a particularly strong spring necessitated milk being transported to SEQ by Lion. SEQ production was up more than 6% to 42 ml, while NSW was also up more than 2% to 73 ml. Southern regions however had more difficult seasons, particularly affecting the spring and both Victoria and South Australia were down 12% and 9% respectively. Victoria produced 69 ml and South Australia 32 ml.

Industry Inquiries

The dairy industry in Australia is going through a period of unprecedented change which has been unsettling and whilst it has undoubtedly created uncertainty for farmers in all regions, the southern regions have been impacted the most. As a result of the Murray Goulburn actions in April 2016 with the now infamous “clawback” two significant inquiries were initiated - a Senate Inquiry and another by the ACCC.

DFMC made two submissions to the ACCC inquiry, one addressing a number of issues in the terms of reference and one specifically addressing collective bargaining groups. Our current Milk Supply Agreement has some fundamental cornerstones that make it successful and ensure DFMC can achieve competitive and fair outcomes in negotiations with Lion Dairy and Drinks (LDD). The ability for both parties to initiate arbitration as a means to resolve disputes is crucial to the current, and any future, agreement. We made this point strongly in our submission and indeed put forward a proposed collective bargaining code. We also met with the ACCC and a number of politicians to discuss the wider industry issues as well as put our proposed code forward as an important structural component of the industry attempts to rebuild trust between processors and suppliers.

Milk Price

The pricing negotiations by region are an important element of DFMC's role in representing member interests with LDD. To ensure competitive pricing, as prescribed in the MSA, there is a considerable amount of work done by both LDD and DFMC staff to model often complex competitor pricing. It is interesting to note that representative bodies acknowledge that a greater degree of pricing transparency would assist with the Code of Practice on Contractual Arrangements developed by the Australian Dairy Industry Council (ADIC) stating that processors should ..."put all versions(excluding any confidential clauses) of their standard form contracts on their websites".

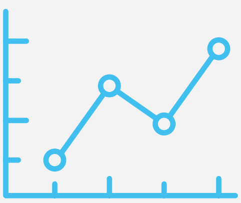
The prices in Far North Queensland (FNQ) and South East Queensland (SEQ) remained unchanged while New South Wales came down 2 cents from the year prior. The competitive southern price was lower than long term averages and with many farm input costs continuing to rise the majority of our farmers in Victoria and South Australia had a tough year.

The prices actually paid by region for the year are as follows:

	FNQ	SEQ	NSW	SA	Vic & Riverina	West Vic
cpl	57.66	56.21	50.94	37.51	38.79	42.48
Gross cpl*	58.43	57.33	51.50	38.11	39.81	43.26

* without deductions for Levy, Allowances and Deductions.

The variances in the amount paid in the southern regions can be attributed to the difference in the average components and incentives paid.



The pricing negotiations by region are an important element of DFMC's role in representing member interests with LDD.

Financial Performance

DFMC had a continuing operating profit before income tax, dividends and rebates of $260,000. This is a decrease from the prior year but in line with budget expectations.

The DFMC share portfolio performed well during the year. At the start of the financial year the portfolio market value was $9.5m and finished up 10.89% to $10.5m and dividend revenue was $336,000 for the year. We continue to maintain a conservative and diversified portfolio which is managed by Macquarie. The balance of the DFMC capital is placed in term deposits with major banking institutions however in an environment where interest rates continue to be low interest earned was down from last year.

DFMC continues to provide members with a dividend. The dividend paid was once again 12% (12 cents), 50 % franked however the level of reinvestment (36%) was not as high as anticipated and the board has decided to reduce this to a rate more in line with the market for the coming year. A rebate was again paid to suppliers on business done at $1 for every 500 litres of milk supplied for the 2015/16 year providing farmers with approximately 0.2 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 competitive price underpinned by secure milk agreements with LDD. DFMC offered financial loans to farmers in drought and disaster-declared areas. We also continued the 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 with LDD who produce, market and distribute some of Australia's most iconic milk and dairy beverages, cheeses and yoghurts. DFMC values the partnership and close working relationship that we have with key LDD personnel, led by Managing Director Peter West and in particular the Agricultural Procurement team led by Murray Jeffrey and the Milk Payments team led by Jeff Cole.

Acknowledgements

DFMC works with a large number of stakeholders to whom we are indebted for their contribution and support. First I'd like to acknowledge the support and guidance of Duncan McInnes, DFMC Chairman, which has been invaluable throughout the year. Clearly the work, insight and direction provided by the very dedicated board is valued greatly by all the management team.

The operational team of Tony Burnett, Dom Baxter and Chris Clark has been incredibly dedicated and committed throughout, what has been a challenging year. Tony's experience, knowledge and ability is a great asset to DFMC and Dom, who joined DFMC in December 2016, has worked tirelessly to support our suppliers in the southern region. Chris Clark's experience and diligence in managing the share registry and many other co-operative matters is greatly valued.

The Lion Dairy and Drinks team that supports DFMC back-end operations works seamlessly and accurately with our staff and suppliers. Daniel Sacca's role in providing the accounting support has been terrific and his work across LDD departments and with 3rd parties is invaluable. Julian Mancini's Milk Payments team have provided great support to staff and farmers alike in an often complex environment.

Our WRAC members came together twice during the year to provide feedback regarding issues that the co-operative faces. This feedback is valuable and helps steer our future.

I have clearly not met all members yet but to the many I have, thank you for your feedback and thoughts. It's why we do what we do.

Yours sincerely,

Mark Kebbell
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 2017.

Directors

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

- Duncan McInnes (Chairman)
- Andrew Burnett
- John Bywater
- Steven Downes
- James Geraghty
- Grant Sherborne
- Cameron Hodge
- Adrian Dauk (appointed Nov 2016)
- Richard Gladigau (resigned Sept 2016)

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 $195 thousand (2016: $427 thousand).

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 2016/17 financial year.

Subsequent Events

Lion Dairy & Drinks (LDD) has marginally increased their commercial milk requirements for DFMC which will see an increase in the commercial requirements of Milk for LDD in 2017/18 financial year.

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.

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.

Andrew Burnett
Director

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

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.

Cameron Hodge
Director

Cameron was elected to the DFMC board in November 2014 and is currently Chair of the Member Services Committee.

He has a diploma in irrigated agriculture and has completed the Australian Institute of Company Directors course. He is a past 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.

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.

Adrian Dauk
Director

Adrian Joined the DFMC Board in November 2016 as an interim Director, passionate and driven about the dairy industry. Along with his wife Holly and three young children bought Holly's parents dairy business 18 months ago. The dairy is a pasture based system that employs two staff and milks 180 Holsteins.

Adrian participates in Dairybase benchmarking and has 10 years experience in the dairy industry. Being a part of a co-operative such as DFMC is important to him. His farm produces 1.4 million litres annually.

Company Secretary

Mark Kebbell joined DFMC as its Executive Officer in October 2016 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, Mark held general management positions in the automotive services sector including Assist Australia, Allianz Insurance and Manheim.

Mark has a Bachelor of Business Studies from Massey University in New Zealand and an MBA (Exec) from the University of Queensland.

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		Milk Policy and Price	
	A	B	A	B	A	B	A	B
Duncan A McInnes	12	12	-	-	-	-	-	-
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	1	1
James B Geraghty	12	12	-	-	3	2	-	-
Richard Gladigau (resigned 30 September 2016)	3	3	-	-	-	-	-	-
Grant Sherborne	12	12	4	4	3	3	-	-
Cameron Hodge	12	12	-	-	3	3	-	-
Adrian Dauk	6	6	-	-	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 2017 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

8 September 2017

John Bywater
Independent Director

8 September 2017

DFMC Current Sitting Directors

From left to right: John Bywater, Cameron Hodge, Steven Downes, Grant Sherborne, Duncan McInnes, James Geraghty, Andrew Burnett and Adrian Dauk.

Auditors' Independence Declaration

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www.hillrogers.com.au | info@hillrogers.com.au
Level 5, 1 Chifley Square, Sydney NSW 2000 Australia
GPO Box 7066, Sydney NSW 2001

Auditors Independence Declaration under Section 307C of the *Corporations Act 2001*

To the Directors of Dairy Farmers Milk Co-operative Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Hill Rogers

Assurance Partners

B. Hanger

Brett Hanger

Partner

Dated this 7th day of September 2017

Corporate Governance

Board of Directors

- Richard Gladigau (resigned 30 Sept 2016)
- Cameron Hodge
- Grant Sherborne
- Duncan McInnes (Chairman)
- James Geraghty
- Steven Downes
- John Bywater
- Andrew Burnett
- Adrian Dauk (appointed Nov 2016)

Audit, Finance and Governance Committee

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

Member Services Committee

- Cameron Hodge (Chair)
- Steven Downes
- James Geraghty
- Adrian Dauk

Milk Price and Policy Committee

- Andrew Burnett (Chair)
- James Geraghty
- John Bywater
- Grant Sherborne
- Adrian Dauk

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 of Directors

Board Composition

The DFMC Board comprised eight directors: seven farmer directors and one independent director.

The board has decided to reduce the number of directors in NSW (Region 3) from two to one, which is in line with other regions based on supplier numbers and volumes. With the current NSW directors' elections due in November 2017 there will be one director elected. Similarly, in South East Queensland, with Chairman Duncan McInnes intending to stand down the director position will not be filled.

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
- 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 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:

- Cameron Hodge (Chair)
- James Geraghty
- Steven Downes
- Adrian Dauk

Responsibilities

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

The role of the committee is to consider issues relating to the development and accountability of the regional farmer representative system – the Ward Representative Advisory Council (WRAC).

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

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 Policy 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)
- John Bywater
- James Geraghty
- Grant Sherborne
- Adrian Dauk

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.

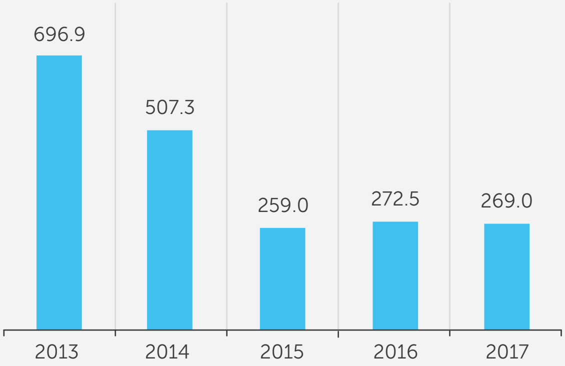
Responsibilities

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:

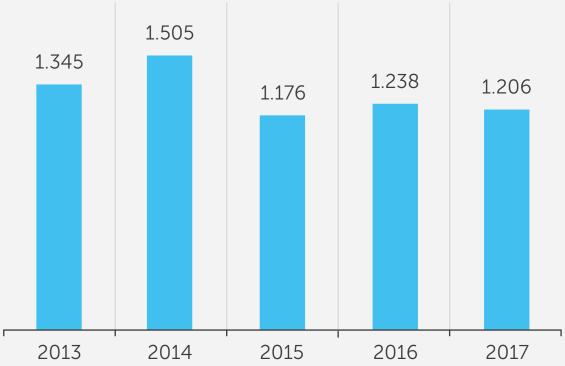
- Collates competitive milk prices paid in each region.
- Considers market supply and demand conditions including seasonal weather conditions.
- Tracks farm costs of production trends. Seeks independent counsel and monitors closely retail market share trends and LDD commercial sales of milk products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

Financial Statements

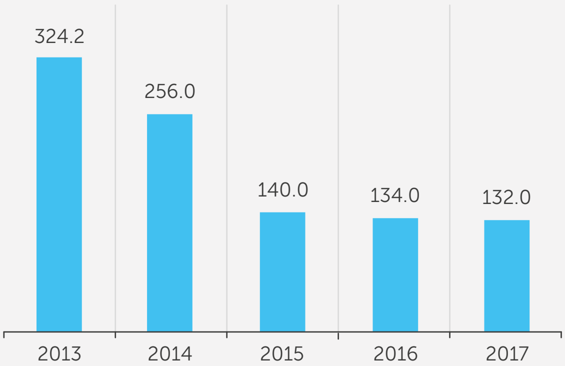
Financials at a Glance



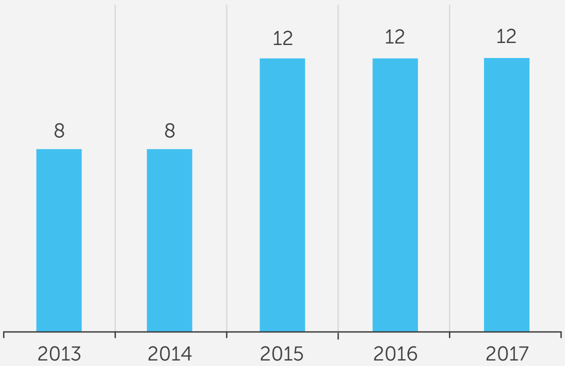
Total Farm Milk Intake Volume (ML)



Average Milk Volume Per Supplier (ML)



Sales Revenue (Million)



Ordinary Dividends Declared in Relation to a Financial Year (cents)

The co-op has had a very sound financial year showing a profit of $260,000 before income tax, dividend and rebates. The dividend once again was 12% and a rebate of $1 per 500 litres supplied.

Statement of Profit or Loss & Other Comprehensive Income

For the year ended 30 June 2017	Notes	2017 $'000	2016 $'000
Sales revenue	2	130,292	134,050
Cost of sales		(130,292)	(134,050)
Gross profit		-	-
Aggregation fee revenue	2	1,100	1,100
Operation fee revenue	2	225	225
Administration expenses	3	(1,811)	(1,784)
Net administration result		(486)	(459)
Investment revenue			
Dividend revenue – Equities	2	336	405
Interest revenue	2	215	280
Finance costs			
Financial institution and others	3	(54)	(52)
Other income			
Other income	2	249	249
Net investment and financing result		746	882
Profit from continuing operations before income tax		260	423
Income tax (expense)/benefit	4	(65)	4
Profit from continuing operations after income tax before member distributions		195	427
Members' dividend payments* - ordinary	5	(404)	(399)
Farmers rebate	5	(542)	(505)
Loss for the year	14	(751)	(477)
Other comprehensive Income: Items that may be reclassified to profit or loss			
Net profit/ (loss) on revaluation of financial assets net of tax		509	(540)
Other comprehensive income/(loss) for the year		509	(540)
Total comprehensive loss for the year attributable to members of the Co-operative		(242)	(1,017)

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

The above Statement of profit or loss & other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2017	Notes	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	6	2,107	4,872
Receivables	7	1,091	460
Other current assets	8	5,266	4,216
Total current assets		8,464	9,548
Non-current assets			
Financial assets	9	10,270	9,257
Total non-current assets		10,270	9,257
Total assets		18,734	18,805
Current liabilities			
Payables	11	311	153
Provisions	12	53	157
Total current liabilities		364	310
Non-current liabilities			
Provisions	12	6	23
Members' share capital*	13	3,455	3,565
Deferred tax liabilities	10	452	208
Total non-current liabilities		3,913	3,796
Total Liabilities		4,277	4,106
Net Assets		14,457	14,699
Equity			
Retained profits	14	13,341	14,092
Reserves	17	1,116	607
Total equity		14,457	14,699

* 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(h), 5 and 13.

The above Statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2017	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2015*	14,569	1,147	15,716
Loss attributable to the Co-operative	(477)	-	(477)
Total other comprehensive loss for the year	-	(540)	(540)
Balance at 30 June 2016*	14,092	607	14,699
Loss attributable to the Co-operative	(751)	-	(751)
Total other comprehensive income for the year	-	509	509
Balance at 30 June 2017*	13,341	1,116	14,457

* 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(h), 5 and 13.

The above Statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2017	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		938	4,129
Payments to suppliers, employees and directors		(1,828)	(1,803)
Cash dividends received		336	405
Cash interest received		215	280
Dividends and farm rebates paid - ordinary shares		(587)	(569)
Net operating cash flows	22	(926)	2,442
Cash flows from investing activities			
Payment for investment in equities		(1,000)	(1,527)
Proceeds from sale of investments		317	343
Repayment of loans		-	117
Purchase of term deposits		(1,046)	(59)
Net investing cash flows		(1,729)	(1,126)
Cash flows from financing activities			
Share subscriptions received	13	439	554
Repayment of share forfeit loans	13	(549)	(1,543)
Net financing cash flows		(110)	(989)
Net Increase in cash		(2,765)	327
Cash at the beginning of the financial year		4,872	4,545
Cash at the end of the year	6	2,107	4,872

The above Statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

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

a) Basis of preparation

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

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

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

The financial statements for the year ended 30 June 2017 were approved and authorised for issue by the Board of Directors on 8 September 2017.

b) Cash and cash equivalents (note 6)

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

c) Receivables (note 7)

(i) Other receivables

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

(ii) Collectability

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

d) Impairment

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

e) Payables (note 11)

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

f) Borrowings

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

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

g) Employee benefits (note 12)

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

Note 1: Summary of Significant Accounting Policies (continued)

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

h) 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.

i) 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.

j) 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.

k) 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.

l) Reporting period

The financial report has been prepared for the financial year ended 30 June 2017.

m) 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.

Note 1: Summary of Significant Accounting Policies (continued)

n) 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.

o) Comparative figures

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

p) 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 2016

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

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

This standard amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:

- the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB *3 Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11;
- the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The adoption of this standard has not had an impact on the Co-operative.

AASB 2014-4 Amendments to AASB 136 – Clarification of Acceptable Methods of Depreciation and Amortisation

This Standard amends AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* to:

- establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset;
- clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset; and
- clarifies that revenue generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

The adoption of this standard has not had an impact on the Co-operative.

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

This Standard makes amendments to the Australian Accounting Standards, as follows:

- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* – provides guidance on changes in methods of disposal.
- AASB 7 *Financial Instruments: Disclosures* – provides guidance on servicing contracts.
- AASB 119 *Employee Benefits* – Discount rate: regional market issue. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.
- AASB 134 *Interim Financial Reporting* – clarifies that disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements or other statements

The adoption of this standard has not had an impact on the Co-operative.

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

The Standard addresses some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.

The adoption of this standard has not had an impact on the Co-operative.

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

AASB 15 Revenue from Contracts with Customers

This standard is currently applicable to annual reporting periods beginning on or after 1 January 2019. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is expected that the co-operative will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed. The impact on the co-operative is likely to be immaterial.

Note 1: Summary of Significant Accounting Policies (continued)

AASB 16 Leases

The new Standard requires lessees to account for leases 'on-balance sheet' by recognising a 'right of use' asset and a lease liability. It will affect most companies that report under Australian Accounting Standards and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property and high value equipment. For many businesses, however, exemptions for short-term leases of low value assets will reduce the impact. The impact on the Co-operative is likely to be immaterial, unless leases are entered into by the date of this standard becoming effective.

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

AASB 1058 Income of Not-for-Profit Entities

AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-to-profit (NFP) entities, in conjunction with AASB 15 Revenue from Contracts with Customers. These Standards supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 Contributions. Under AASB 1058, the timing of income recognition depends on whether a NFP transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity. The entity is yet to undertake a detailed assessment of the impact of AASB 1058. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

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

q) Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

(ii) Financial assets at fair value
Following the early adoption of AASB 9, all investments form part of the co-operative's investment portfolio and have been classified as financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income include investments in the co-operative's investment portfolio. Financial assets at fair value through other comprehensive income are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity (into the asset revaluation reserve). Realised gains or losses on the sale of investments are also shown in the asset revaluation/realisation reserve, then transferred to retained earnings at the end of the reporting period.

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

Impairment

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

Derecognition

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

Note 1: Summary of Significant Accounting Policies (continued)

r) Significant judgments in applying accounting policies

(i) Recovery of deferred tax assets

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

(ii) Valuation of investments

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

Note 2: Revenue and Other Income	2017 $'000	2016 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	130,292	134,050
	130,292	134,050
Other administration and investment revenue		
Aggregation fee revenue (b)	1,100	1,100
Operation fee revenue (c)	225	225
Dividend revenue – Equities	336	405
Interest revenue	215	280
	1,876	2,010
Total revenue from continuing operations	132,168	136,060
Other income		
Other Income (d)	249	249

a) Sale of goods to DFL

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

b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, while DFMC derives at least 90% of its revenues from DFL, DFL must pay the Aggregation Fee to DFMC to cover the expenses incurred by DFMC in connection with the consolidation or aggregation of the milk supply for on sale to DFL. The Aggregation Fee for the year ended 30 June 2017 was agreed at $1.1 million (2016: $1.1 million).

c) Operation fee revenue

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

d) Other income

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

Note 3: Expenses	2017 $'000	2016 $'000
Profit before income tax includes the following specific expenses		
Finance costs		
Financial institution and others	54	52
Administration expenses		
Employee and director benefits expense	774	805
Defined contribution superannuation expense	76	77
Travel expenses	206	214
Consultancy fees	275	97
Legal fees	81	82
Other expenses	399	509
	1,811	1,784

Note 4: Income Tax	2017 $'000	2016 $'000
a) **Income tax expense reconciliation**		
(Loss)/Profit before income tax	(687)	(481)
Income tax (benefit)/expense calculated at 30% (2016: 30%)	(206)	(144)
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	61	60
Other non-deductible expenditure	13	7
Franked dividend revenue	46	43
	(86)	(34)
Recognition of prior period tax losses not recognised in prior years	181	-
Under provided in prior years	(30)	30
Income tax (benefit)/expense	65	(4)
Average effective tax rate	(10%)	(1%)
b) **Income tax expense analysis**		
Deferred tax		
Changes in deferred tax assets (Note 10)	87	(2)
Changes in deferred tax liabilities (Note 10)	(22)	(2)
Income tax (benefit)/ expense	65	(4)
c) **Unrecognised tax losses**		
Unused tax losses for which no deferred tax asset has been recognised	15,181	14,087
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	4,554	4,226

Note 5: Dividends on Members' Share Capital	2017 $'000	2016 $'000

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 costs within the income statement. The amount of these 'dividends' on ordinary shares are as follows:

Dividends		
a) Special dividends – recognised and paid during the financial year		
Payment date	15/12/2016	16/12/2015
Dividend per share	$0.12	$0.12
Per cent franked	50%	50%
Paid in cash	257	243
Re-invested DFMC shares	147	156
Total ordinary dividends paid during the financial year	404	399

Farm rebate		
b) At the AGM in November 2016 members approved payment of a rebate to eligible members at the rate of $1.00 for each 500 litres of milk supplied in the 2015/16 financial year		
Payment date	21/12/2016	21/12/2015
Rate per 500 litres supplied in FY2016	$1.00	$1.00
Paid in cash	330	326
Re-invested to DFMC shares	212	179
Total Rebate paid during the financial year	542	505

Franking credits		
c) Franking credits available for subsequent financial years	209	144

The above franking account balance has been adjusted for:

(i) Franking credits/(debits) that will arise from the payment/(refund) of income tax payable/(receivable) as at the end of the Financial Year.

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

Interest payable at dividend rate

d) Under Co-operatives National Law (NSW) if membership is cancelled, share capital must be repaid to the former member within one year of the cancellation. Current DFMC policy is to repay share capital as soon as possible following cancellation. Under certain specified circumstances, the amount may be retained and applied as a deposit, debenture or CCU with interest payable at the dividend rate as disclosed in note 1j(i). No amounts were retained, under these provisions, in the financial year ended 30 June 2017 and therefore no interest was paid.

Note 6: Cash and Cash Equivalents	2017 $'000	2016 $'000
Cash and cash equivalents	2,107	4,872
Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 2.59% and 3.14% (2016: 2.95% and 4%).		

Note 7: Receivables	2017 $'000	2016 $'000
Current		
Other receivables	1,091	460

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2017	$	$	$	$	$	$	$
Other receivables	1,091	-	-	-	-	-	1,091

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2016	$	$	$	$	$	$	$
Other receivables	460	-	-	-	-	-	460

Note 8: Other Current Assets	2017 $'000	2016 $'000
Prepayments	16	11
Term deposits	5,250	4,205
	5,266	4,216

Note 9: Financial Assets	2017 $'000	2016 $'000
Financial assets at Fair Value – shares in listed corporations	10,270	9,257
a) **Investment in equities** DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth in February 2010 to invest $8.5 million in the Australian equities market. There are no fixed returns or fixed maturity dates attached to these investments.		

Note 10: Deferred Tax Assets & Liabilities	2017 $'000	2016 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	(13)	30
Employee provisions	10	54
Total deferred tax assets	(3)	84
a) **Movements in deferred tax assets**		
Balance at the beginning of the year	84	82
Credited to the income statement	(89)	31
(Under) in prior year	2	(29)
Balance at the end of the year	(3)	84
b) **Timing of recovery**		
To be recovered		
Within 12 months	(5)	77
After 12 months	2	7
	(3)	84
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	441	262
Unearned revenue	8	30
Total deferred tax liabilities	449	292
c) **Movements in deferred tax liabilities**		
Balance at the beginning of the year	292	524
Charged to the income statement	5	(3)
(Under)/Over in prior year	(28)	-
Charged to equity	180	(229)
Balance at the end of the year	449	292
d) **Timing of settlement**		
To be settled		
Within 12 months	449	292
	449	292
Total net deferred tax balances	(452)	(208)

Note 11: Payables	2017 $'000	2016 $'000
Trade creditors and accruals	311	153

Note 12: Provisions	2017 $'000	2016 $'000
Current		
Employee benefits	53	157
Non-current		
Employee benefits	6	23
Balance at the beginning of the year	180	151
Charged to the statement of comprehensive income	(17)	17
Amounts used	104	12
Balance at the end of the year	59	180

	Number of Shares		Nominal Value	
Note 13: Members' Share Capital	2017 #	2016 #	2017 $'000	2016 $'000
Opening balance – shares of $1 each (fully paid)	3,564,562	4,553,777	3,565	4,554
Shares issued	335,794	390,403	336	390
Share levies (a)	102,748	163,692	103	164
Shares forfeited (b)	(548,694)	(1,543,310)	(549)	(1,543)
Closing balance – shares of $1 each (fully paid)	3,454,410	3,564,562	3,455	3,565
Balance at the end of the year	3,454,410	3,564,562	3,455	3,565

Ordinary shares

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

Ordinary shares entitle the holder to participate in dividends of the Co-operative in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each shareholder is entitled to one vote.

a) Milk payment deductions

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

b) Shares forfeited

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

Note 13: Members' Share Capital (continued)

c) Capital management

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

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

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

Note 14: Retained Profits	**2017 $'000**	**2016 $'000**
Balance at the beginning of the year	14,092	14,569
Loss attributable to members	(751)	(477)
Balance at the end of the year	13,341	14,092

Note 15: Commitments for Expenditure		
The Co-operative had nil commitments as at 30 June 2017 (2016: nil).		

Note 16: Contingent Liabilities and Contingent Assets		
The Co-operative had no contingent liabilities or assets as at 30 June 2017 (2016: nil).		

Note 17: Financial Assets Reserve	**2017 $'000**	**2016 $'000**
The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value.	1,116	607

Note 18: Auditors' Remuneration	**2017 $**	**2016 $**
Amount received, or due and receivable by Hill Rogers Assurance partners for audit of the financial report	17,500	20,000
Amount received, or due and receivable by Hill Rogers for other services	6,215	8,900

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: A D R Burnett, J W Bywater, S Downes, J B Geraghty, R T Gladigau (retired September 2016), C Hodge, D A McInnes (Chairman), G Sherborne and A Dauk (Appointed November 2016).

b) Executive Officer

DFMC appointed an Executive Officer in February 2009. Inaugural EO Greg Griffith resigned in September 2016 and was replaced in November 2016 by Mark Kebbell. 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.

	2017 $	2016 $
d) Key management personnel compensation		
Short-term employment benefits	774,024	805,342
Post-employment benefits (superannuation)	75,976	76,507
Total key management personnel compensation	850,000	881,849

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

	Number of Directors	Per Annum Fee $
Director fees for the current financial year are:		
Chairman	1	85,000
Other directors	7	300,000

e) Other transactions with key management personnel

a. Farmer directors

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

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

Note 20: Related Party Transactions and Economic Dependency

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

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

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $100,000 (2016: $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.

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	2017 $'000	2016 $'000
(Loss)/Profit attributable to members	(751)	(477)
Non-cash items in operating profit		
Other non-cash items	65	84
Fund management fee	-	49
Dividend and farm rebate reinvestment	359	335
Movement in assets and liabilities		
(Increase)/Decrease in prepayments	(6)	2,753
(Decrease)/Increase in deferred tax	-	(234)
Increase/(Decrease) in payables and accruals	158	(16)
Increase in receivables	(630)	(81)
(Decrease)/Increase in provisions	(121)	29
Net cash inflow from operating activities	(926)	2,442

Shares forfeited during the year totalling $0.549 million (2016: $1.543 million) were transferred from members' share capital.

Note 23: Financial Risk Management

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

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

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:

	Notes	2017 $'000	2016 $'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	2,107	4,872
Loans and receivables	7	1,091	460
Term deposits	8	5,250	4,205
Financial assets at fair value	9	10,270	9,257

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.

Note 23: Financial Risk Management (continued)

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.

At 30 June 2017 the Co-operative's financial assets and liabilities are as follows:

	Notes	2017 $'000	2016 $'000
Financial assets			
Cash and cash equivalents	6	2,107	4,872
Loans and receivables	7	1,091	460
Term deposits	8	5,250	4,205
Financial Assets at fair value:			
– listed investments	9	10,270	9,257
Total financial assets		18,718	18,794
Financial liabilities			
Financial liabilities at amortised cost:			
– trade and other payables	11	311	153
– members' share capital	23	3,455	3,565
Total financial liabilities		3,766	3,718

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.

Note 23: Financial Risk Management (continued)

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial liabilities due for payment								
Trade and other payables	311	153	-	-	-	-	311	153
Members' share capital					3,455	3,565	3,455	3,565
Total contractual outflows	311	153	-	-	3,455	3,565	3,766	3,718
Total expected outflows	311	153	-	-	3,455	3,565	3,766	3,718
Financial assets — cash flows realisable								
Cash and cash equivalents	2,107	4,872	-	-	-	-	2,107	4,872
Term deposits	5,250	4,205					5,250	4,205
Trade, term and loan receivables	1,091	460	-	-	-	-	1,091	460
Other investments	-	-	-	-	10,270	9,257	10,270	9,257
Total anticipated inflows	8,448	9,537	-	-	10,270	9,257	18,718	18,794
Net inflow on financial instruments	8,137	9,384	-	-	6,815	5,692	14,952	15,076

Note 23: Financial Risk Management (continued)

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

	2017 $'000	2016 $'000
Banks	3,725	2,958
Commercial services & supplies	542	589
Diversified financials	1,470	1,449
Energy	433	425
Food & drug retailing	691	673
Food beverage & tobacco	24	-
Health care equipment & services	298	344
Insurance	221	195
Materials	735	589
Pharmaceuticals & Biotechnology	669	592
Real estate	240	318
Software & services	260	187
Telecommunication services	296	382
Transportation	252	193
Utilities	413	363
Cash Management Account	272	248
	10,541	9,505

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.

Note 23: Financial Risk Management (continued)

	Profit $	Equity $
Year ended 30 June 2017		
+/- 2% in interest rates	+/- 152	+/- 152
+/-10% in listed investments	N/A	+/- 1,014
Year ended 30 June 2016		
+/- 2% in interest rates	+/- 189	+/- 189
+/-10% in listed investments	N/A	+/- 911

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.

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.

Note 23: Financial Risk Management (continued)

		2017		2016	
	Footnote	Net Carrying Value $'000	Net Fair Value $'000	Net Carrying Value $'000	Net Fair Value $'000
Financial assets					
Cash and cash equivalents	(i)	2,107	2,107	4,872	4,872
Term deposits	(i)	5,250	5,250	4,205	4,205
Trade and other receivables	(i)	1,091	1,091	460	460
		8,448	8,448	9,537	9,537
Financial asset at fair value through other comprehensive income:					
– at fair value:					
– Listed Investments		10,270	10,270	9,257	9,257
Total financial asset at fair value through other comprehensive income	(iii)	10,270	10,270	9,257	9,257
Total financial assets		18,718	18,718	18,794	18,794
Financial liabilities					
Trade and other payables	(i)	311	311	153	153
Members' share capital	(iv)	3,455	3,455	3,565	3,565
Total financial liabilities		3,766	3,766	3,718	3,718

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

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts relating to the provision of annual leave which is not considered a financial instrument.

(ii) Discounted cash flow models are used to determine the fair values of loans and advances. Discount rates used on the calculations are based on interest rates existing at the end of the reporting period for similar types of loans and advances. Differences between fair values and carrying values largely represent movements in the effective interest rate determined on initial recognition and current market rates.

(iii) For listed financial assets through other comprehensive income, closing quoted bid prices at the end of the reporting period are used. In determining the fair values of the unlisted financial assets through other comprehensive income, the directors have used inputs that are observable either directly (as prices) or indirectly (derived from prices).

(iv) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair value of fixed rate bank debt will differ from carrying values.

Note 23: Financial Risk Management (continued)

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).

2017	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial assets			
Financial asset at fair value through other comprehensive income:			
— listed investments	10,270	-	-
	10,270	-	-

2016	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial assets			
Financial asset at fair value through other comprehensive income:			
— listed investments	9,257	-	-
	9,257	-	-

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.

Note 24: Events After the Reporting Period

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

Note 25: Co-Operative Details

The registered office and principal place of business is:
12/60 Carrington Street
SYDNEY NSW 2000

Directors' Declaration

The directors of the Co-operative declare that:

a) **The financial statements and notes set out on pages 25 to 50 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 2017 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

8 September 2017

John Bywater
Independent Director

8 September 2017

Independent Auditor's Report

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

Opinion

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 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and other explanatory notes, and the directors' declaration of the Co-operative.

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 2017 and of its performance for the year ended on that date;

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

c. complying with International Financial Reporting Standards as disclosed in the note 1 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Co-operative in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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 establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

Independent Auditor's Report

hill rogers

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

Auditor's Responsibilities for the Audit of the Financial Report (continued)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 2017 and of its performance for the year ended on that date, in accordance with the requirements of the Co-operatives (Adoption of National Law) Act 2012.

Hill Rogers

Assurance Partners

B. Hanger

Brett Hanger
Partner

Dated at Sydney, this 25th day of September 2017

DFMC is farmer-run and farmer-owned, bringing together milk, capital and members to provide better outcomes for dairy farmers and manufacturers.

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