Annual Report
2019

DFMC™
DAIRY FARMERS MILK CO-OP

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

Contents

Chairman

- Andrew Burnett

Directors

- John Bywater
- James Geraghty
- Grant Sherborne
- Adrian Dauk
- John McKillop (Appointed Feb 2019)
- Bernice Lumsden

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
SDA	Saputo Dairy Australia
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 ensure the dairy businesses of our members thrive and prosper over the longterm.

- Andrew Burnett, DFMC Chairman

Chairman's Report

It is with great pleasure that I present to you the Chairman's report on behalf of the board for the Dairy Farmers Milk Co-operative.

This year has been one of great challenge, with every region witnessing substantially less rainfall than the average. Nationally this drought has resulted in considerably higher input costs for grain and hay, or water and associated irrigation costs. Higher costs mean tighter margins and the Co-operative's milk intake was again reduced to 225 million litres. Our membership also declined, with farm numbers at July 2018 of 191.

Our partners Lion introduced two programs throughout the year to assist. The True Blue Drought Program which commenced in October. The retail price increased by 10 cents for every 2 litre sold at participating retailers with the money pooled and paid back to farmers in the areas hardest hit. Secondly the Dairy Pride Programme which was a sustainability support program aiming to help our suppliers in all aspects of milk production. The online self assessment tool was widely adopted, and many aspects implemented. The Board would like to thank Kathy Karabatsas and the Lion team for the introduction of these two programs and especially the field staff who worked closely with our suppliers. During difficult environmental conditions real team work was required to deliver great resources and support to our suppliers.

June 30 saw the conclusion of the original Milk Supply Agreement (MSA) which was first negotiated and signed in 2008. It set the foundation for the relationship between Lion Dairy and Drinks and DFMC. In March of this year DFMC successfully signed an extension and amendment for another 3 years.

John Bywater has been an independent director on the board since 2011, and has chaired our Audit and Finance committee, taken responsibility for the Co-operatives investment and worked on many board committees. John decided he would not seek reelection at the end of his term and retired on June 30. John spent his entire working life committed to the dairy industry, he witnessed many changes, including Co-op merges and acquisitions, introduction of various technologies and infrastructure both on farm and at factory level, deregulation and retailer involvement. The board wishes John all the best in retirement and acknowledges the loss of knowledge and experience.

This retirement however gives the board the opportunity to fill that position, and in February welcomed John McKillop as the new independent director. John brings to the board a wealth of Agri Business knowledge having worked in leading managerial roles in many companies and board roles.

The Co-op had another strong financial performance with the board focused on driving cost out of its operation. DFMC had a continuing operating profit after income tax and before dividend of $676,000. A dividend of 8% was paid with slightly half of that reinvested back into the Co-op.

With the board numbers set at 1 director per region and 1 independent many committee meetings and some board meeting are conduction via video link, therefore travel and accommodation were reduced as was director fees.

As Chairman I tried to attend as many DFMC supplier meetings as possible along with end of year functions and many industry events. With support from Deputy Chair Adrian Dauk and the board DFMC tried to engage with as many of its suppliers as possible during a challenging year. Many thanks go to the board for their energy and commitment as their farms were also impacted by the weather conditions.

Mark Kebbell, our Executive officer and his team of Tony Burnett and Dominic Baxter have done a wonderful job serving our supplier base across the 5 regions. They have done a substantial amount of travel which means nights away from family and friends. I believe one of the key strengths of DFMC is the relationship built with our farmers and this would not be achieved without the effort, sacrifice and empathy of this team.

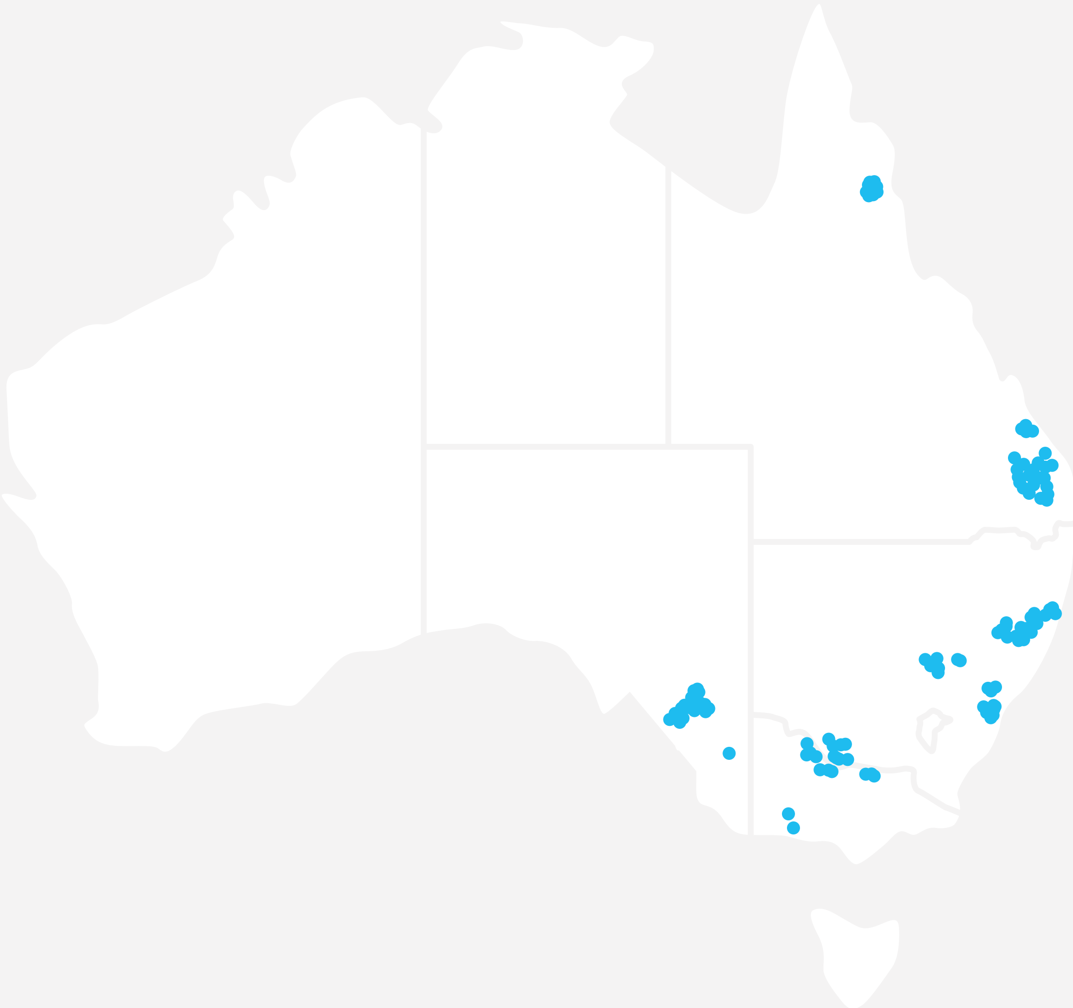
Most importantly I wish to thank the members for their support and milk supply this year. Again, our collective volumes, capital and resources have proved to be strong pillars of success.

Yours sincerely,

Andrew Burnett
Chairman
Dairy Farmers Milk Co-operative

The key charter for DFMC each year is to negotiate milk price and purchasing policy with Lion Dairy & Drinks.

Our Co-operative in 2019



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.

2018/19 Milk Production Overview
(as at July 2018)

Region	No of farms	Litres (000,000)
FNQ	46	48m
SEQ	45	36m
NSW	44	62m
Vic	36	54m
SA	20	23m
Total	**191**	**225m**

191
Farms

420
Members

10
WRAC Members

5
Regions

4
Staff Members

6
Board Members

1.3
Average Milk Volume
Per Supplier (ML)

225
Total Farm Milk
Intake Volume (ML)

Executive Officer's Report

The dominant theme for all regions through the 2018/19 season was the drought. The direct and indirect impacts were felt universally with input costs for feed and water in the irrigation districts rising sharply. This adversity created a unity across dairying regions that hasn't been seen for some time.

The advocacy bodies enhanced their calls for the end of $1 per litre retailer-own-brand (ROB) milk, state and federal government provided various drought relief programs, individual farmers used social media to draw attention to the dairy farmers' plight and the industry saw the situation as a catalyst for change.

The outcomes of these various actions and reactions manifested itself in a greatly enhanced visibility in the wider community for the dairy sector and we saw some important changes. DFMC and Lion Dairy and Drinks (Lion) had commenced discussions about the drought and implementing change some months before the start of the 2018/19 season but it wasn't until September 2018 that the first move by a major retailer saw Woolworths lift the $1 per litre for ROB by 10c with an assurance that all of the 10c would be passed through to farmers. Public and government pressure ensured the major competitors Coles and Aldi followed suit and it appears the unsustainable price of $1 per litre has been broken.

Lion then launched their True-Blue Drought campaign with 10c per litre wholesale price increases for the Dairy Farmers and Pura brands. The funds raised were distributed to farmers in the regions directly affected by the drought in NSW, Queensland and Victoria. This campaign raised a little under $3,500,000.

In further recognition of the impacts of the drought and its impact of farmers Lion introduced a Dairy Pride payment of 2c per litre across all regions from September 2018 until June 2019. DFMC are very grateful for both initiatives.

As mentioned, the dairy industry, through four key bodies - Dairy Australia, Australian Dairy Farmers, Australian Dairy Industry Council and the Gardiner foundation, took the initiative to launch the Dairy Plan in November 2018. Engagement across regions and industry took place from May to July 2019. Key messages from the engagement include resounding support for change and the need to restructure, and potentially consolidate, advocacy in the industry to be more effective. The outcomes are eagerly awaited in the coming months.

Production

Milk production has unsurprisingly dropped significantly for the 2018/19 season. Dairy Australia figures show that nationally production dropped approximately 5.7% from the year prior to 8.8 billion litres for the 2018-19 season (ending June 30) from 9.3 billion litres the previous year. The drought environment, notwithstanding the various support programs, has seen farmers in many regions leave the industry. Further, of those that have stuck it out, many have made structural changes that has resulted in lower production.

Far North Queensland (FNQ) production was down to 47.9 million litres (ml) from 52.9 ml. These levels are closer to Lion's commercial needs in the region and consequently there was significantly less milk transported from the region to South East Queensland (SEQ) and the lower freight levy charges to farmers reflects this. The production for SEQ was down close to 10% from the prior year to 38.5 million litres. The tough season saw 9 DFMC suppliers leave the industry during the year from the region. Dairy Australia production figures for the whole state reflect the DFMC experience down 10.2% from the prior year.

In NSW production was down to 61.2 ml from 70.3 ml the year prior. Northern Victoria saw the greatest number of suppliers leave the industry with DFMC finishing the year with 7 fewer than in July 2018 with the cost of water being the predominant issue. Production dropped to 50.5 ml – a greater fall than the Dairy Australia statistics for the region. Our South Australian supplier base shrunk further with 4 suppliers leaving the industry and production was down to 22.2 ml.

Milk Supply Agreement

A significant outcome during the year was the formal extension of our all-important Milk Supply Agreement (MSA) with Lion Dairy & Drinks (Lion) that has been formally extended by a further 3 years with an Amendment and Restatement Deed that runs through to 30 June, 2022. As the document name suggests, the core elements of the current MSA are largely being restated. There are some amendments. Updates to core elements include:

Term - the term of the agreement is extended by 3 years and will expire on 30 June 2022

Clearly, the initial 10-year term of the MSA was in the interests of both parties at the time of signing prior to the sale. The importance of having a secure source of milk for then National Foods (now Lion) was obvious and equally members needed certainty for their dairy farming businesses. The 3-year term extension is seen by both parties to provide the right balance between flexibility and security in the current operating environment. It is anticipated that discussions about a new term will commence with Lion well before June 2022.

Milk Price - the milk price continues to be the market price

An important principle of our MSA is the notion of market price for milk. This has been fundamental to DFMC achieving competitive prices in each region in annual negotiations. Key clauses dealing with back-to-back milk pricing arrangements remain in the revised MSA. The mechanics around the determination of the commercial price for milk have been updated which essentially reflect the current practice between DFMC and Lion in relation to the negotiation of the milk price.

Dispute Resolution - the dispute resolution mechanisms are still largely the same

Effective dispute resolution has been fundamental to the success of the MSA. Essentially, should there be a dispute between Lion and DFMC on issues relating to, or affecting, milk price, there is a defined process that the parties follow which includes mediation and/or expert determination. The dispute resolution mechanism in the revised MSA now only applies to the milk purchasing policy and milk pricing. Disputes about other matters to do with the MSA are no longer included.

Exclusivity - the milk supply arrangements outlined in the MSA are non-exclusive

Lion may continue to purchase milk from third parties and DFMC may supply "excess milk" (i.e. milk produced from farms which don't currently supply DFMC) to third parties.

The 3-year term extension essentially means DFMC's current suppliers have a commitment from Lion to take the milk from their current farms (which supply DFMC) subject to Lion's right to close milk processing factories in each region. If this did occur, DFMC would be given not less than 180 days' notice and DFMC would need to find another buyer for the milk.

Under the current MSA, there were limitations on DFMC's ability to deal with other processors when there was excess milk in existing supply regions, and in regions where DFMC did not contract milk for Lion. This will no longer be the case and creates opportunities for DFMC to grow in a market where farmer representation is widely sought to help correct the acknowledged imbalance of power in the processor/farmer relationship or where processors don't have the resources to manage supplier relationships directly.

Fees - the aggregation fee is now a fixed fee of $300,000 per year.

The current MSA included an aggregation fee paid to DFMC largely in recognition of savings in transaction costs made by Lion in sourcing the milk from the cooperative, compared to the costs they would incur if they were to contract the milk directly. The current MSA was signed at time when DFMC suppliers produced around 1 billion litres of milk per year. The aggregation fee has been re-negotiated to reflect DFMC's production volume and the respective responsibilities of DFMC and Lion under the revised MSA. Lion will continue to manage the milk payments and DFMC will manage our own financial accounting and share registry functions, as well as continue the all-important regional manager relationships.

Milk Price

The pricing negotiations by region are an important element of DFMC's role in representing member interests with Lion. The complexity of accurately modelling farm-gate pricing of the processor competitors in each region is compounded when there are significant changes in structure and further when the processors seek to enforce confidentiality clauses. The pressures in each region differ greatly with the uncertainty of supply becoming an issue as the impacts of the drought began to hit.

Prices for the 2018-19 season for FNQ and SEQ remained unchanged from the year prior while the NSW price lifted 1 cent per litre (cpl). In the southern regions the most commonly taken option, the one-year fixed rate, lifted to $6.10/kgMS from $5.75/kgMS.

Financial Performance

DFMC had a profit from continuing operations after income tax and before member distributions of $676,000. This is up from last year and is largely driven by increased dividend revenue.

The DFMC share portfolio performed reasonably well during the year. At the start of the financial year the portfolio valuation was $12.1m. The portfolio valuation at year-end was $13.3m. The return performance was 10.06% (using the time weighted return methodology).

This is a reasonably solid result given portfolios exposure to listed interest rate securities (7% of portfolio) and the portfolios exposure to international (circa 8%) where the index achieved 9.96%. We held onto some cash throughout the year also taking a more conservative stance given volatility throughout the year.

DFMC paid a dividend of 8% of which 50% was franked.

Partnerships

The partnership with Lion Dairy and Drinks (LDD) has clearly been fundamental to DFMC's existence and the co-dependency necessitates a close working relationship with key LDD personnel. Primarily these relationships are with the Agricultural Procurement team led by Murray Jeffrey and the Milk Payments team led by Julian Mancini.

In September 2018 Lion announced that the Dairy & Drinks business would be sold. Having initially indicated that only offers for the whole business would be accepted Saputo's offer for Lion's Tasmanian cheese processing plants, located in Burnie and King Island, and Lion's cheese brands, including South Cape, King Island Dairy and Tasmanian Heritage, was accepted. This did not impact DFMC at all. The balance of the business is yet to be sold. Managing Director Kathy Karabatsas has led the LDD team through this challenging process and we acknowledge that the uncertainty has an impact on all involved, from staff to suppliers, to some extent.

The Milk Supply Agreement negotiations, completed in March 2019, were very professionally conducted and reflective of a good and strong working relationship.

Acknowledgements

The importance of the role played by the board on behalf of members is clear. With geographically representative directors the role of the independent director becomes arguably more important, insofar as the skill set and experience of the board is potentially not as diverse as a corporate structure. Independent director for the just less than eight years John Bywater stood down at the end of June. John worked in the dairy industry in multiple roles for many years providing the board with a unique knowledge and experience set to draw on. John chaired the audit and finance committee and took responsibility for the investment portfolio, bringing a wealth of experience to the board in milk processing and logistics, finance, corporate governance and general agribusiness. On behalf of DFMC directors, staff and suppliers we extend our thanks to John.

The management team grew by one during the year as we prepared for July 1, 2019 and the new MSA (see above). Daniel Sacca joined the team from LDD where he had responsibility for DFMC financial reporting. Clearly this transition was a win-win for all involved and Dan has managed the transition to administrative independence (from Lion) with great competence and pragmatism. Having been co-located with LDD since 2008 we are now in our own offices in Geelong.

Regional managers Dom Baxter and Tony Burnett have been at the forefront in what has been an inordinately difficult year for many of our suppliers facing direct drought conditions and those impacted indirectly with the dramatic increase to input, particularly feed, costs. Many farmers made some difficult farming and business decisions during the year, often with the counsel of Dom or Tony. Their experience and empathy have been invaluable throughout, coupled with the big distances they need to cover to support our members, deserves our praise and gratitude.

LDD have continued to provide the milk payments to our suppliers and as all would appreciate it's a complex task managed to tight deadlines. Julian Mancini leads the LDD team with the experienced support of Melissa Clubb and her staff, always with an unwavering focus on accuracy and timeliness, and often having to problem solve or work long hours to meet our supplier expectations.

And finally, thanks to all suppliers for your attendance at meetings, constructive feedback, market information gathering and commitment to providing high quality milk through tough times. The co-operative principles of supporting each other and being stronger together are never more important.

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 2019.

Directors

The following persons were directors during the financial year and/or are current sitting directors at the time of this report:

- Andrew Burnett (Chairman)
- John Bywater
- James Geraghty
- Grant Sherborne
- Adrian Dauk
- Bernice Lumsden
- John McKillop (appointed Feb 2019)

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 $676 thousand (2018: $524 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 2018/19 financial year.

Subsequent Events

Lion Dairy & Drinks (LDD) has maintained their commercial milk requirements for DFMC which will see similar commercial requirements of Milk for LDD in 2019/20 financial year.

DFMC has signed an Amendment and Restatement Deed Milk Supply Agreement with Lion Dairy and Drinks. This extends the term of the agreement by 3 years and will expire on 30 June 2022. The aggregation fee is now a fixed fee of $330,000 per year.

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)

Andrew Burnett

Chairman

Andrew Burnett was elected to the Board in 2011 and was elected Chairman in November 2017.

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.

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.

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 Holstiens.

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.

Bernice Lumsden
Director

Bernice jouined the Board in July 2018 and is a third generation dairy farmer in the Leitchville area in Northern Victoria. She milks 750 cows with her husband Scott producing 5.7 million litres of milk on 1500 acres of mainly Lucerne and rye grass supplementary feeding with a partial mix ration of home grown maize and vetch silages. Bernice has a Bachelor of Business and Masters of Business Administration and worked for 8 years in the tertiary education field. She is currently a member of the Torrumbarry Water Services Committee for Goulburn Murray water.

John McKillop
Independent Director

John McKillop joined the Board of DFMC in February 2019, taking on the role as Independent Director with the coming departure of John Bywater in June 2019. This afforded a period of handover for this important role.

John previously held roles as independent director with Dairy Australia, for six years from 2012 to 2018 as well as Meat & Livestock Australia and Cubbie Cotton. He was CEO of Hassad Australia, a Qatar based investor with large scale cropping and livestock operations across Australia. Prior roles include Managing Director of Clyde Agriculture and General Manager roles at Elders and Stanbroke Pastoral.

He holds a Diploma in Farm Management, a Bachelor of Business, a Graduate Certificate in Agribusiness, a Master of Business Administration and is a graduate of the Australian Institute of Company Directors.

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		Milk Policy and Price	
	A	B	A	B	A	B
Andrew Burnett	10	10	2	2	-	-
John Bywater	10	10	2	2	2	2
James Geraghty	10	10	2	2	2	2
Grant Sherborne	10	10	2	2	2	2
Adrian Dauk	10	10	2	2	2	2
Bernice Lumsden	10	10	2	2	-	-
John McKillop (appointed February 2019)	5	5	1	1	-	-

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 2019 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.

Andrew Burnett
Chairman

28 August 2019

John McKillop
Independent Director

28 August 2019

DFMC Current Sitting Directors

From left to right: John Bywater, Adrian Dauk, Bernice Lumsden, Grant Sherborne, Andrew Burnett, James Geraghty and John McKillop.

Auditors' Independence Declaration

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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 2019 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

Vishal Modi

ASIC registered company auditor no.: 486119

Dated at Sydney this 28th day of August 2019

Corporate Governance

Board of Directors

- Andrew Burnett (Chairman)
- John Bywater
- James Geraghty
- Grant Sherborne
- Adrian Dauk
- Bernice Lumsden
- John McKillop (appointed February 2019)

Audit, Finance and Governance Committee

- John Bywater (Chair)
- John McKillop
- James Geraghty
- Bernice Lumsden

Milk Price and Policy Committee

- Adrian Dauk (Chair)
- Andrew Burnett
- Bernice Lumsden

Member Services and Milk Policy

- Addressed by full board

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 six directors: five farmer directors and one independent director.

Independent director John Bywater announced his intention to retire at June 30, 2019 and the board decided to appoint an independent director in February 2019 to ensure a full and complete handover. John McKillop has assumed the independent director role and taken on the responsibility of chairing the Audit, Finance and Governance committee.

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

Board Responsibilities

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

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

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

Audit, Finance and Governance Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- John Bywater (Chair)
- Bernice Lumsden
- James Geraghty
- John McKillop

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

With the restructuring of the board it was decided that the responsibilities for Member Services be addressed by the full board.

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.
- Newsletters, 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:

- Adrian Dauk (Chair)
- Bernice Lumsden

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.

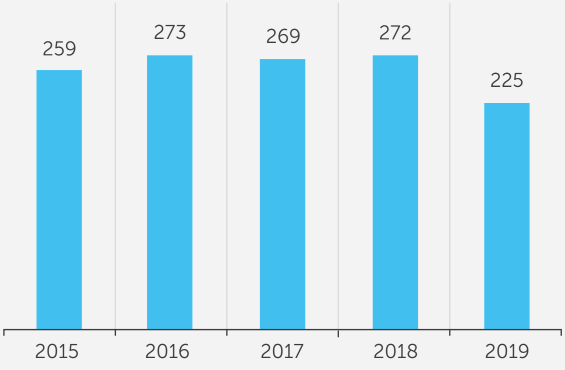
Responsibilities

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:

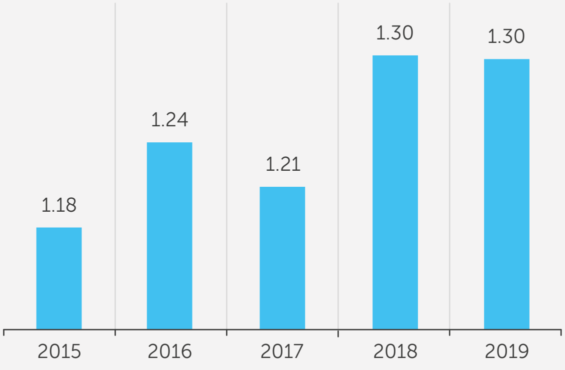
- Collates competitive milk prices paid in each region.
- Considers market supply and demand conditions including seasonal weather conditions.
- Tracks farm costs of production trends. Seeks independent counsel and monitors closely retail market share trends and LDD commercial sales of milk products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

Financial Statements

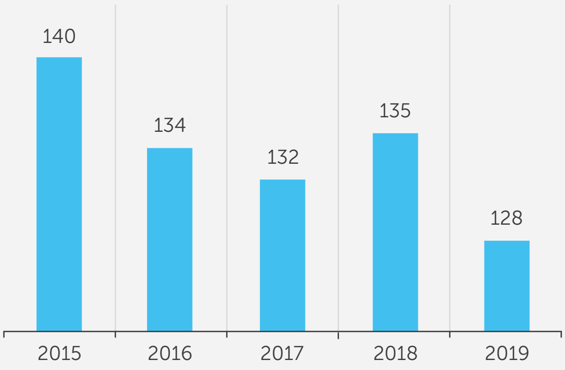
Financials at a Glance



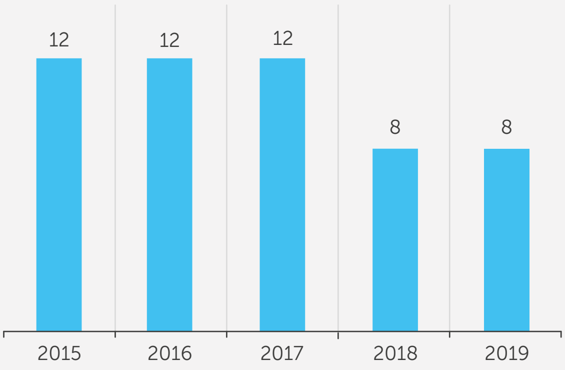
Total Farm Milk Intake Volume (ML)



Average Milk Volume Per Supplier (ML)



Sales Revenue (Million)



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

Again the co-op had another solid year financially with a profit from continuing operations after income tax and before member distributions of $676,000.

Statement of Profit or Loss & Other Comprehensive Income

For the year ended 30 June 2019	Notes	2019 $'000	2018 $'000
Sales revenue	2	127,746	135,204
Cost of sales		(127,746)	(135,204)
Gross profit		-	-
Aggregation fee revenue	2	1,100	1,100
Operation fee revenue	2	225	225
Administration expenses	3	(1,669)	(1,631)
Net administration result		(344)	(306)
Investment revenue			
Dividend revenue – Equities	2	573	429
Interest revenue	2	165	186
Finance costs			
Financial institution and others	3	(57)	(57)
Other income			
Other income	2	328	250
Net investment and financing result		1,009	808
Profit from continuing operations before income tax		665	502
Income tax benefit	4	11	22
Profit from continuing operations after income tax before member distributions		676	524
Members' dividend payments* - ordinary	5	(288)	(277)
Farmers rebate	5	-	(533)
Profit/(loss) for the year	14	388	(286)
Other comprehensive Income: Items that may be reclassified to profit or loss			
Net profit on revaluation of financial assets net of tax		504	542
Other comprehensive income for the year		504	542
Total comprehensive income/(loss) for the year attributable to members of the Co-operative		892	256

* 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 2019	Notes	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	6	831	1,608
Receivables	7	793	581
Other current assets	8	5,673	5,569
Total current assets		7,297	7,758
Non-current assets			
Financial assets	9	13,061	11,622
Property, plant and equipment		12	-
Total non-current assets		13,073	11,622
Total assets		20,370	19,380
Current liabilities			
Payables	11	412	302
Provisions	12	98	65
Total current liabilities		510	367
Non-current liabilities			
Provisions	12	17	12
Members' share capital*	13	3,445	3,701
Deferred tax liabilities	10	793	587
Total non-current liabilities		4,255	4,300
Total Liabilities		4,765	4,667
Net Assets		15,605	14,713
Equity			
Retained profits	14	13,443	13,055
Reserves	17	2,162	1,658
Total equity		15,605	14,713

* 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 2019	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2017*	13,341	1,116	14,457
Loss attributable to the Co-operative	(286)	-	(286)
Total other comprehensive income for the year	-	542	542
Balance at 30 June 2018*	13,055	1,658	14,713
Profit attributable to the Co-operative	388	-	388
Total other comprehensive income for the year	-	504	504
Balance at 30 June 2019*	13,443	2,162	15,605

* 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 2019	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		1,439	2,090
Payments to suppliers, employees and directors		(1,578)	(1,706)
Cash dividends received		572	429
Cash interest received		165	186
Dividends and farm rebates paid - ordinary shares		(178)	(513)
Net operating cash flows	22	420	486
Cash flows from investing activities			
Payment for investment in equities		(1,100)	(1,474)
Proceeds from sale of investments		273	550
Payment for property, plant and equipment		(11)	-
Cash reclassed to other current asset		(103)	(307)
Net investing cash flows		(941)	(1,231)
Cash flows from financing activities			
Share subscriptions received	13	232	432
Repayment of share forfeit loans	13	(488)	(186)
Net financing cash flows		(256)	246
Net Increase in cash		(777)	(499)
Cash at the beginning of the financial year		1,608	2,107
Cash at the end of the year	6	831	1,608

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 2019 were approved and authorised for issue by the Board of Directors on 28 August 2019.

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 nor 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 2019.

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 2018

The impact of the below newly effective standards have no material impact on the Co-operative:

Disclosure Initiative (Amendments to AASB 107)

Amendments were made to AASB 107 to include additional disclosure requirements about changes in an entity's financing liabilities arising from both cash flow and non-cash flow items. This is no material effect in the financial statements as net financing cash flows is reconciled to the movement in Members' Share Capital in note 13.

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.

AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014 – 2016 Cycle

This Standard clarifies the scope of *AASB 12 Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with *AASB 5 Non-current Assets Held for Sale and Discontinued Operations*.

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

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. The impact on the co-operative is immaterial.

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.

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 is determined based on current bid prices for all quoted investments.

Note 1: Summary of Significant Accounting Policies (continued)

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.

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	2019 $'000	2018 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	127,746	135,204
	127,746	135,204
Other administration and investment revenue		
Aggregation fee revenue (b)	1,100	1,100
Operation fee revenue (c)	225	225
Dividend revenue – Equities	573	429
Interest revenue	165	186
	2,063	1,940
Total revenue from continuing operations	129,809	137,144
Other income		
Other Income (d)	328	250

a) **Sale of goods to DFL**

DFMC and DFL have entered into a ten year rolling Milk Supply Agreement, which expired in June 2019, so that DFMC could 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 2019 was agreed at $1.1 million (2018: $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	2019 $'000	2018 $'000
Profit before income tax includes the following specific expenses		
Finance costs		
Financial institution and others	57	57
Administration expenses		
Employee and director benefits expense	786	739
Defined contribution superannuation expense	78	74
Travel expenses	100	161
Consultancy fees	166	99
Legal fees	67	42
Other expenses	472	516
	1,669	1,631

Note 4: Income Tax	2019 $'000	2018 $'000
a) **Income tax expense reconciliation**		
Profit/(Loss) before income tax	(377)	(308)
Income tax (benefit)/expense calculated at 30% (2018: 30%)	113	(92)
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	25	41
Other non-deductible expenditure	5	9
Franked dividend revenue	(3)	45
	140	3
Recognition of prior period tax losses not recognised in prior years	(155)	-
Opening balance adjustment	-	10
Over provided in prior years	4	(35)
Income tax (benefit)/expense	(11)	(22)
Average effective tax rate	(2.8%)	7%
b) **Income tax expense analysis**		
Deferred tax		
Changes in deferred tax liabilities (Note 10)	(11)	(22)
Income tax (benefit)/expense	(11)	(22)
c) **Unrecognised tax losses**		
Unused tax losses for which no deferred tax asset has been recognised	14,709	15,490
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	4,413	4,647

Note 5: Dividends on Members' Share Capital	2019 $'000	2018 $'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	14/12/2018	15/12/2017
Dividend per share	$0.08	$0.08
Per cent franked	50%	50%
Paid in cash	178	152
Re-invested DFMC shares	110	125
Total ordinary dividends paid during the financial year	288	277

Farm rebate		
b) **At the AGM in November 2017 members approved payment of a rebate to eligible members at the rate of $1.00 for each 500 litres of milk supplied in the 2017/18 financial year. There were no payments made in 2019.**		
Payment date	-	21/12/2017
Rate per 500 litres supplied in FY2018	-	$1.00
Paid in cash	-	360
Re-invested to DFMC shares	-	173
Total rebate paid during the financial year	-	533

Franking credits		
c) **Franking credits available for subsequent financial years**	325	302

The above franking account balance has been adjusted for:

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

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

Interest payable at dividend rate

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 2019 and therefore no interest was paid.**

Note 6: Cash and Cash Equivalents	2019 $'000	2018 $'000
Cash and cash equivalents	831	1,608
Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 2.35% and 2.77% (2018: 2.59% and 2.73%).		

Note 7: Receivables	2019 $'000	2018 $'000
Current		
Other receivables	793	581

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2019	$	$	$	$	$	$	$
Other receivables	793	-	-	-	-	-	793

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2018	$	$	$	$	$	$	$
Other receivables	581	-	-	-	-	-	581

Note 8: Other Current Assets	2019 $'000	2018 $'000
Prepayments	12	11
Term deposits	5,661	5,558
	5,673	5,569

Note 9: Financial Assets	2019 $'000	2018 $'000
Financial assets at Fair Value – shares in listed corporations	13,061	11,622

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. In March 2019 DFMC transitioned investment advisory services to Franklin Advisory.

Note 10: Deferred Tax Assets & Liabilities	2019 $'000	2018 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	(1)	(5)
Employee provisions	29	23
Total deferred tax assets	28	18
a) **Movements in deferred tax assets**		
Balance at the beginning of the year	18	(3)
Opening balance adjustment	-	(10)
Credited to the income statement	16	(4)
Over in prior year	(6)	35
Balance at the end of the year	28	18
b) **Timing of recovery**		
To be recovered		
Within 12 months	24	14
After 12 months	4	4
	28	18
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	821	605
Unearned revenue	-	-
Total deferred tax liabilities	821	605
c) **Movements in deferred tax liabilities**		
Balance at the beginning of the year	605	449
Charged to the income statement	-	-
Under in prior year	-	-
Charged to equity	216	156
Balance at the end of the year	821	605
d) **Timing of settlement**		
To be settled		
Within 12 months	821	605
	821	605
Total net deferred tax balances	(793)	(587)

Note 11: Payables	2019 $'000	2018 $'000
Trade creditors and accruals	412	302

Note 12: Provisions	2019 $'000	2018 $'000
Current		
Employee benefits	98	65
Non-current		
Employee benefits	17	12
Balance at the beginning of the year	77	59
Charged to the statement of comprehensive income	(28)	(49)
Amounts used	66	67
Balance at the end of the year	115	77

	Number of Shares		Nominal Value	
Note 13: Members' Share Capital	2019 #	2018 #	2019 $'000	2018 $'000
Opening balance – shares of $1 each (fully paid)	3,701,105	3,454,410	3,701	3,455
Shares issued	152,773	334,073	153	334
Share levies (a)	79,136	98,553	79	99
Shares forfeited (b)	(488,432)	(185,931)	(488)	(186)
Closing balance – shares of $1 each (fully paid)	3,444,582	3,701,105	3,445	3,701
Balance at the end of the year	3,444,582	3,701,105	3,445	3,701

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	2019 $'000	2018 $'000
Balance at the beginning of the year	13,055	13,341
Profit/(Loss) attributable to members	388	(286)
Balance at the end of the year	13,443	13,055

Note 15: Commitments for Expenditure		
The Co-operative had nil commitments as at 30 June 2019.		

Note 16: Contingent Liabilities and Contingent Assets		
The Co-operative had no contingent liabilities or assets as at 30 June 2019.		

Note 17: Financial Assets Reserve	2019 $'000	2018 $'000
The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value.	2,162	1,658

Note 18: Auditors' Remuneration	2019 $	2018 $
Amount received, or due and receivable by Hill Rogers Assurance partners for audit of the financial report	17,850	17,500
Amount received, or due and receivable by Hill Rogers for other services	6,050	6,050

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 (Chairman), J W Bywater (retired June 2019), J B Geraghty, G Sherborne, A Dauk, Bernice Lumsden (Appointed July 2018), John McKillop (Appointed February 2019).

b) Executive Officer

DFMC appointed Mark Kebbell as Executive Officer in November 2016. 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.

	2019 $	2018 $
d) Key management personnel compensation		
Short-term employment benefits	786,378	738,782
Post-employment benefits (superannuation)	78,222	73,603
Total key management personnel compensation	864,600	812,385

The compensation noted above comprises the following per annum fixed directors' fees (inclusive of superannuation). The compensation noted above also includes the Executive Officer, Farm Advisory Services and Finance Manager 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	70,000
Other directors	5	185,000

Note 19: Key Management Personnel Disclosures (continued)

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 (2018: $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	2019 $'000	2018 $'000
Profit/(loss) attributable to members	388	(286)
Non-cash items in operating profit		
Other non-cash items	193	85
Dividend and farm rebate reinvestment	110	298
Movement in assets and liabilities		
Decrease/(Increase) in prepayments	(2)	5
Increase in deferred tax liabilities	(206)	(135)
(Decrease)/Increase in payables and accruals	112	(9)
Decrease/(Increase) in receivables	(212)	510
Increase in provisions	37	18
Net cash inflow from operating activities	420	486

Shares forfeited during the year totalling $0.488 million (2018: $0.186 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	2019 $'000	2018 $'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	831	1,608
Loans and receivables	7	793	581
Term deposits	8	5,661	5,558
Financial assets at fair value	9	13,061	11,622

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 2019 the Co-operative's financial assets and liabilities are as follows:

	Notes	2019 $'000	2018 $'000
Financial assets			
Cash and cash equivalents	6	831	1,608
Loans and receivables	7	793	581
Term deposits	8	5,661	5,558
Financial Assets at fair value:			
– listed investments	9	13,061	11,622
Total financial assets		20,346	19,369
Financial liabilities			
Financial liabilities at amortised cost:			
– trade and other payables	11	412	302
– members' share capital	13	3,445	3,701
Total financial liabilities		3,857	4,003

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial liabilities due for payment								
Trade and other payables	412	302	-	-	-	-	412	302
Members' share capital	-	-	-	-	3,445	3,701	3,445	3,701
Total contractual outflows	412	302	-	-	3,445	3,701	3,857	4,003
Total expected outflows	412	302	-	-	3,445	3,701	3,857	4,003
Financial assets — cash flows realisable								
Cash and cash equivalents	831	1,608	-	-	-	-	831	1,608
Term deposits	5,661	5,558	-	-	-	-	5,661	5,558
Trade, term and loan receivables	793	581	-	-	-	-	793	581
Other investments	-	-	-	-	13,061	11,622	13,061	11,622
Total anticipated inflows	7,285	7,747	-	-	13,061	11,622	20,346	19,369
Net inflow on financial instruments	6,873	7,445	-	-	9,616	7,921	16,489	15,366

Note 23: Financial Risk Management (continued)

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

	2019 $'000	2018 $'000
Banks	3,625	3,532
Commercial services & supplies	698	596
Diversified financials	291	1,991
Energy	643	654
Food & drug retailing	470	723
Food beverage & tobacco	-	17
Health care equipment & services	293	219
Insurance	221	182
Materials	1,468	1,028
Pharmaceuticals & Biotechnology	715	737
Real estate	113	161
Retailing	283	-
Software & services	-	343
Telecommunication services	265	180
Transportation	681	612
Other	3,295	648
Cash Management Account	322	521
	13,383	12,144

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 2019		
+/- 2% in interest rates	+/- 128	+/- 128
+/-10% in listed investments	N/A	+/- 1,196
Year ended 30 June 2018		
+/- 2% in interest rates	+/- 141	+/- 141
+/-10% in listed investments	N/A	+/- 1,088

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 (i.e. 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)

		2019		2018	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	Footnote	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	(i)	831	831	1,608	1,608
Term deposits	(i)	5,661	5,661	5,558	5,558
Trade and other receivables	(i)	793	793	581	581
		7,285	7,285	7,747	7,747
Financial asset at fair value through other comprehensive income:					
– at fair value:					
– Listed Investments		13,061	13,061	11,622	11,622
Total financial asset at fair value through other comprehensive income	(iii)	13,061	13,061	11,622	11,622
Total financial assets		20,346	20,346	19,369	19,369
Financial liabilities					
Trade and other payables	(i)	412	412	302	302
Members' share capital	(iv)	3,445	3,445	3,701	3,701
Total financial liabilities		3,857	3,857	4,003	4,003

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).

2019	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial assets			
Financial asset at fair value through other comprehensive income:			
— listed investments	13,061	-	-
	13,061	-	-

2018	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial assets			
Financial asset at fair value through other comprehensive income:			
— listed investments	11,622	-	-
	11,622	-	-

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 49 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 2019 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.

Andrew Burnett
Chairman

28 August 2019

John McKillop
Independent Director

28 August 2019

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 2019, 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 2019 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 2019 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

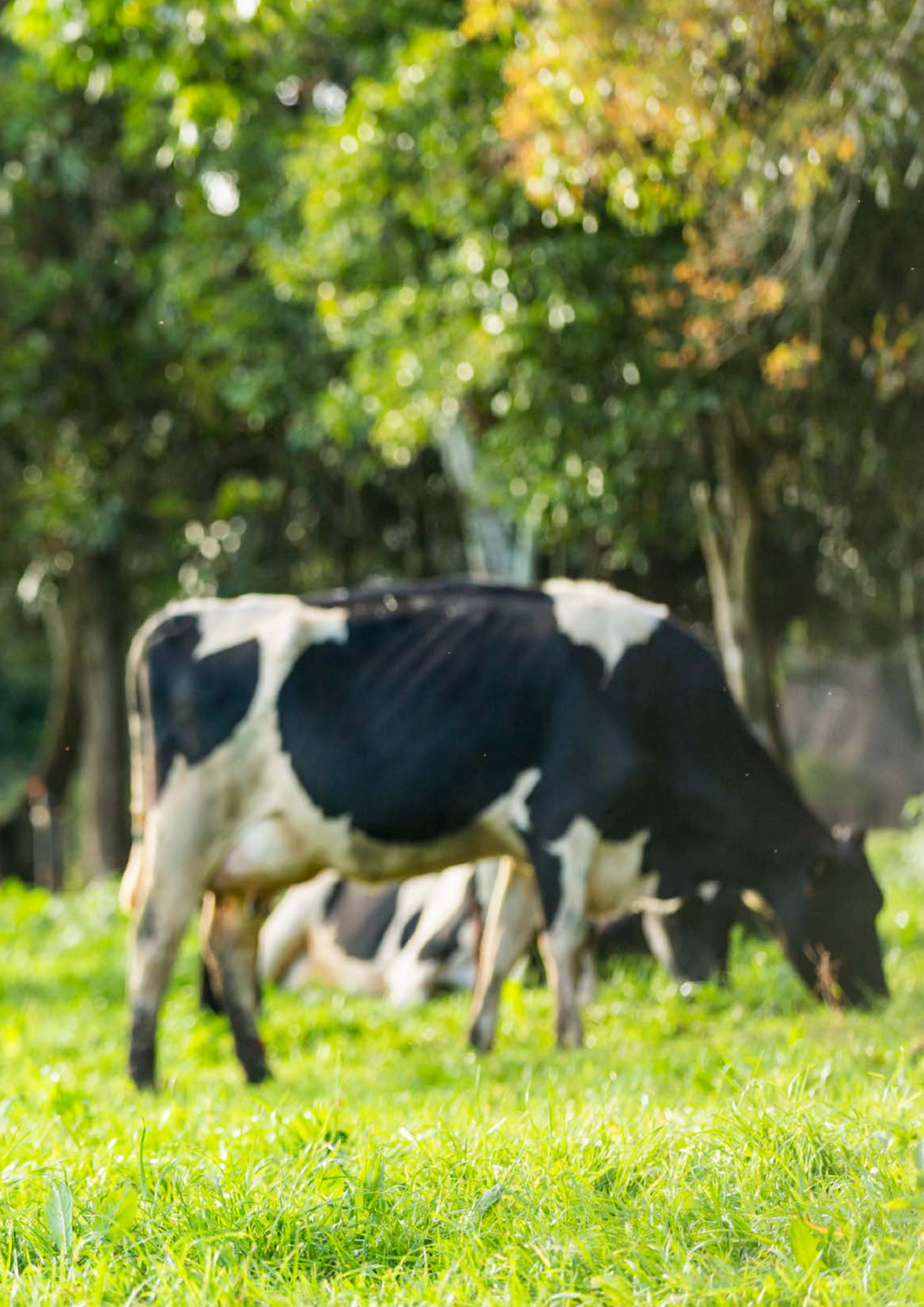
Vishal Modi

Vishal Modi

ASIC registered company auditor no.: 486119

Dated at Sydney this 28th day of August 2019

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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