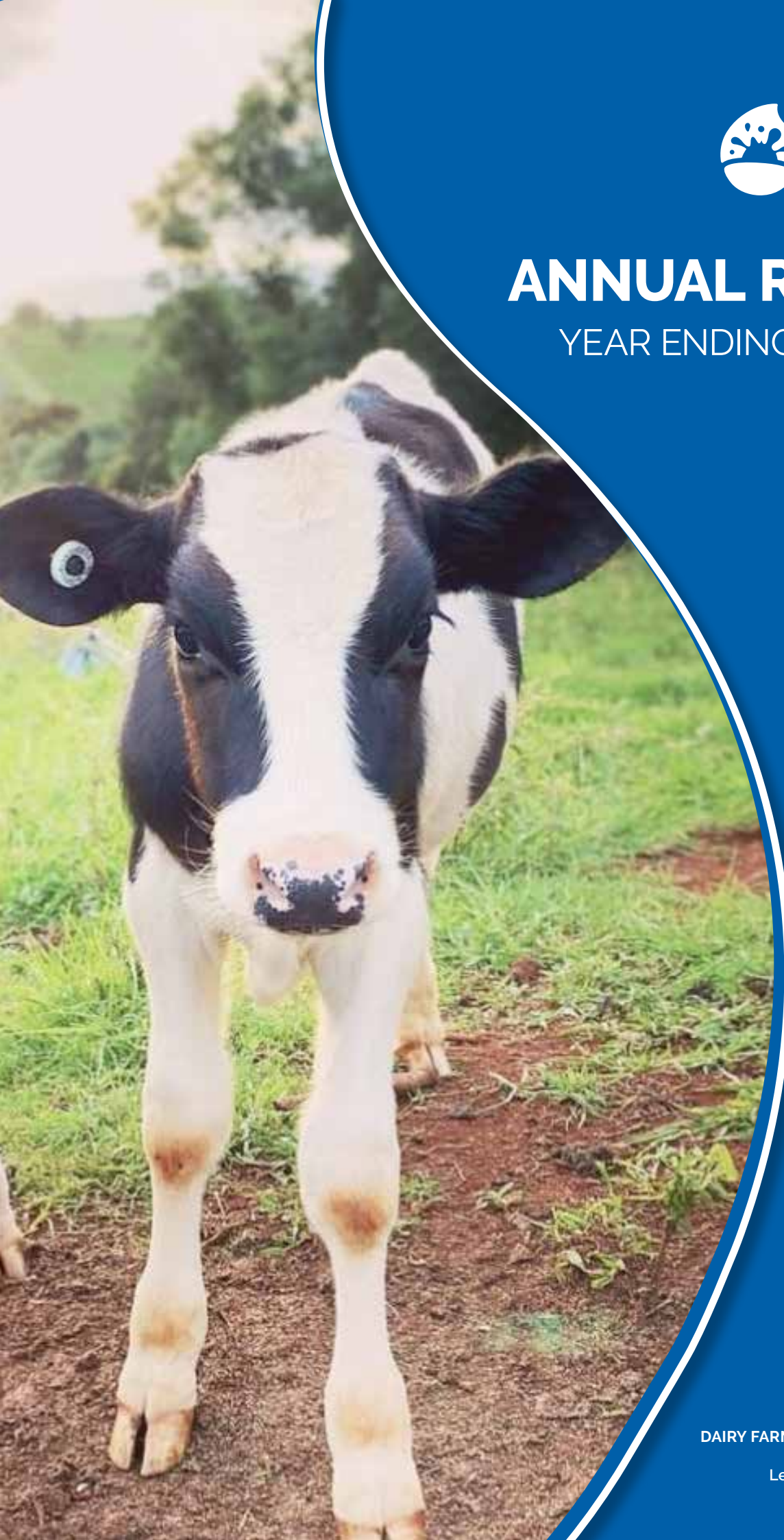




ANNUAL REPORT

YEAR ENDING JUNE 2023



DAIRY FARMERS MILK CO-OPERATIVE
ARBN: 108 690 384
Level 4, 65 Brougham Street,
Geelong, Vic 3220

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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

12/60 Carrington Street

SYDNEY NSW 2000

Telephone: 02 8120 4431

Facsimile: 02 8244 4635

Internet: www.dfmc.org.au

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

CHAIRMAN

Andrew Burnett

DIRECTORS

James Geraghty

John Maher

Sandy Rathjen

Trevor Middlebrook

Andrew Wilson

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Nexia Sydney Audit Pty Ltd

SOLICITORS

Addisons Lawyers

EXECUTIVE OFFICER & SECRETARY

Mark Kebbell



CHAIRMAN'S REPORT

It is with great pleasure that I present the Chairman's report on behalf of the board for the Dairy Farmers Milk Cooperative.

The Dairy Farmers Milk Co-operative is a farmer run, farmer owned, supply co-operative. Our core purpose is to add value and provide security to our members through a unique relationship with our processing partner, Bega Dairy and Drinks, a subsidiary of Bega cheese. Farmer confidence has been restored this past year, with buoyant trading terms for our farmer members from Far North Queensland to South Australia. With milk prices at record highs, increased demand for milk from Bega, favourable weather conditions resulting in a softening of hay and grain prices our farmer members experienced some positive cashflows.

In some of our Northern regions we have welcomed new members, a mix of farms returning to supply DFMC and some new entrants to our industry. DFMC is also very supportive of our younger farmers, as we strive to encourage and mentor the next generation. All this results in a stable membership base of 227 from about 115 farms. A total of 130 million litres was aggregated.

The Co-operative's relationship with Bega continues to strengthen and mature, and on behalf of the board I would like to thank Chairman Barry Irvine and Chief Executive Officer Pete Finlay for their ongoing support. Bega's milk supply team works closely with our farmers to ensure quality milk supply and technical support from the team lead by Glenn Bake, is greatly appreciated.

The relationship between DFMC and Bega is unique, and it is underpinned by a Milk Aggregation Supply Agreement. DFMC successfully signed a 3-year extension, which includes a greater aggregation fee and maintains all the benefits and details of the previous agreements. One key requirement of this agreement is obtaining ACCC authorisation, and Bega and DFMC were successful in obtaining a 10-year authorisation to collectively bargain. Thank you to the Bega team and DFMC's management team in obtaining such a long authorisation term.

Financially, DFMC experienced another successful year reporting a profit from continuing operations of \$21,000. We are forever grateful for the work the Directors did some 15 years ago in establishing our investment portfolio. In November 2022 the co-operative distributed to members \$332k, in a combination of dividends and rebates, along with a 1 for 5 bonus share offer.

As a result, from the distribution the co-operative made an operating loss of \$320k. With the profit from sale and revaluation of investments comprehensive income for the year attributable to members was \$834k.

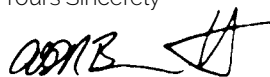
During the year the board experienced a few changes. Andrew Wilson became the Director for region 5, Victoria. Andrew has been involved with the co-operative for a number of years in various representative roles and his introduction to the board has been very welcome.

Sandy Rathjen has been the Director for region 4, South Australia for just over a year. Unfortunately Sandy retired in May, leaving the co-operative with a casual vacancy in that region. Sandy was an enthusiastic contributor, had an eye for detail and always displayed a professional approach to her board position.

One of the strengths of the Co-operative is its ability to reach and service our farm members. The management team, led by Executive Officer Mark Kebbell has had another rewarding year. Regional supplier meetings, workshops and social functions were well attended which allows Mark and the team ideal opportunities to discuss business directly with members. Dom Baxter and Damien Tessmann are the regional managers and are on the ground handling day to day activities. Robert Goodwin is the co-operative's business manager, running the office, with all tasks from finance to share registry. On behalf of the board, thank you Mark, Dom, Damien, and Robert for a level of professionalism and service that underpins the performance and values of the co-operative.

Thank you to the board of DFMC, each director not only represents their region but works for the co-operative as a collective. A combination of board, policy and regional meetings plus industry engagements ensure a level of strategic thinking, governance, and guidance that allows the co-operative to continue to develop. Finally, the continual milk supply and commitment from the co-operatives farmer members has resulted in another positive year. Collectively we have overcome many challenges and positioned ourselves to take advantage of the opportunities to come.

Yours Sincerely



Andrew Burnett
Chairman Dairy Farmers Milk Co-operative.



EXECUTIVE OFFICERS REPORT



The dairy industry in Australia enjoyed some better times in the year ended June 30, 2023. Farmgate prices were at record highs and the third La Nina in a row was forecast. The milk pool in Australia retracted once again and competition for milk from processors was the primary driver for strong prices.

World prices for dairy commodities peaked in March 2022 however and began a downward trend that continued for the FY23. Most of the world's economies began settling down after the disruptions of COVID-19 but there remained some challenges with China's recovery, after late surges and lockdowns, slower than expected.

The La Nina weather pattern remained the dominant driver of seasons with most regions receiving higher than normal rainfall, with some areas like northern Victoria unfortunately suffering heavy flooding in November.

Production

Overall milk production in Australia dropped by a further 5% to 8.1 million litres in the year ending June 2023. Farm exits continues to be a challenge for the industry as the combination of high returns for alternative farming enterprises and high land prices continued to be attractive. DFMC farm numbers moved marginally down from the prior year with a couple of farm exits during the year, in line with national trends.

In FNQ, whilst a couple of farms did cease production, a new farming family joined the co-operative re-starting which is a very positive narrative for the region. Indeed, there are a couple of start-up dairying businesses well advanced with plans to commence production this financial year. Annual milk production dropped by a little over 3.5 million litres with the FY23 total at approximately 40.5 million litres (ML). This is below the Malanda plant's needs and initiatives to grow production, including increased New Milk and Growth incentives.

A big lift to production in SEQ the prior year, largely due to a significant supplier joining the co-operative, reversed in FY23 as the fierce competition for milk saw the business return to supplying their previous processor. Many members in the region produced more milk than the than in recent years to collectively supply 33.5 ML of milk to Bega.

Our NSW members supplied a little under 40 ML, down from 45 ML. Whilst farm numbers reduced marginally, the severe flooding in the Central West of the state in November was extremely tough on members in the region. This largely account for the production drop in the region. DFMC's members in Northern Victoria were similarly hit with flooding in November. For those effected the water did "sit" for a good while and milk transporters had difficulties for several days. A couple of members exited the industry and production was down to a little under 8 ML. A further 7 million litres was supplied by our organic farmers to other processors. South Australian members supplied 6.5 ML from a stable member base.

ACCC authorisation

Our arrangements with Bega have firm foundations in our agreement – the Milk Agreement Supply Agreement (we renamed the original Milk Supply Agreement, or MSA, because the Code of Conduct now uses the phrase to refer to farmgate agreements with processors). There are many carefully considered clauses in the MASA but it can be simply framed as a collective bargaining agreement with dispute resolution mechanisms. The MASA is dependent on an Authorisation from the ACCC because there are elements of the Competition & Consumer Act which might apply to the Back-to-Back Arrangements. Re-authorisation was sought to ensure that DFMC, DFMC Members and Bega can continue to make and give effect to the Back-to-Back Arrangements by way of the MASA and Farmer MSAs. The ACCC granted the authorisation for a further 10 years and importantly agreed the Back-to-Back arrangements will:

- create transaction cost savings for DFMC Members and Bega
- reduce information asymmetry for DFMC Members
- ensure greater input into supply contracts for DFMC Members and Bega
- ensure greater farmer input into milk pricing and milk policies.
- provide certainty of supply for DFMC, Bega and DFMC Members through the continuation of existing milk supply arrangements.

Milk price

The negotiations that take place every year with Bega for farmgate milk prices in each of the regions are one of the most important functions of the co-operative. Together with the work we do collectively on milk policy they form the basis for many other functions. Whilst milk price information from several sources, like international commodity prices for example, are important the Australian market has become increasingly insular. The broad concept of tightening milk supply and the inherent competition for milk from the processing sector ensured that milk prices dominated pricing offers again this year. Against a backdrop of international dairy commodity prices falling this has presented some challenges in the market for processors. Significant increases in volumes of imported dairy products into.



Financial Performance

The Aggregation Fee DFMC receives from Bega under the current agreement increased to \$450k per annum (from \$300k) for FY23. This enabled a slightly better than breakeven profit from continuing operations in November 2022 the cooperative distributed to members \$332k, in a combination of dividends and rebates, as well as a 1 for 5 bonus share offer. As a result, after the distribution the co-operative made an operating loss of \$320k. With the profit from sale and revaluation of investments comprehensive income for the year attributable to members was \$834k.

Partnerships

The Bega relationship is clearly integral to the co-operative's ongoing success. The Milk Aggregation Supply Agreement (MASA) was agreed in principle last year and was signed during the year for a further 3 years. The key updates were essentially to reflect the changed environment under the Code of Conduct. The relationship with Bega is built on mutual respect and that continues to build as we work together. Hamish Reid, Executive GM – Nutritionals and Ingredients, leads the Milk Supply team, amongst other areas, following the departure of Mark McDonald. He has demonstrated great trust in his team and respect for the relationship with DFMC. The Milk Supply team, led by Glenn Bake, works well with the DFMC staff throughout the year and the all-important farmgate milk price negotiations are respectful and effective.

Acknowledgements

With COVID-19 finally behind us we were all able to settle into a full year of "normal" travel, on-farm visits, supplier meetings and board meetings. Some of the efficiencies the whole world learned during COVID lockdowns with online meetings, in particular, have now become the norm. They will never replace face-to-face meetings but allow higher frequency and importantly, lower cost, meetings. Our regional managers have enjoyed full freedom of movement and being with suppliers as much as possible.

The board has once again provided management with strong guidance and support. The ability of the regional directors to step back from the immediacy of their own farming businesses and regions to consider wider good of co-operative is respected by all.

Northern Regional manager, Damien Tessmann, is very well settled in now with a full year under his belt and strong relationships with the members and importantly, in the wider industry. Southern Regional manager, Dom Baxter, now has responsibilities for NSW, Nth Victoria, and South Australia. Exposure to new regions and farmers, farming systems and challenges have been welcomed and embraced. Finance Manager Robert Goodwin has taken on the diversity of the role very well. Real improvements have been made with the share registry on a new platform, the updating and maintenance of the all-important competitor pricing models less reliant on external consultants as well as the more traditional finance elements of the role.



DIRECTORS REPORT



In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Cooperative') present their report on the Co-operative for the year ended 30 June 2023

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)
- James Geraghty
- John Maher
- Sandy Rathjen (resigned May 2023)
- Trevor Middlebrook
- Andrew Wilson

Principal Activities

DFMC is governed by the Cooperatives (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 and before member distributions of \$12 thousand (2022: profit of \$84 thousand).

A review of operations is contained in the Chairman's and Executive Officer's Reports 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 2022/23 financial year.

Subsequent Events

Bega Dairy & Drinks (BDD) has maintained their commercial milk requirements for DFMC which will see similar commercial requirements of Milk for BDD in 2023/24 financial 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 Cooperative is not subject to any environmental legislation of significance.

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.

Indemnification and Insurance

During the financial year, the Cooperative 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 Cooperative. 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

Cooperative for all or any part of those proceedings.

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

Rounding of Amounts

The Co-operative is of a kind referred to in the class order 'Rounding in Financial Reports and Directors' Reports', issued by the Registrar of Co-operatives relating to the 'rounding off' of amounts in the Directors' Report.

Amounts in the Directors' Report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditors' Independence Declaration

The lead auditors' independence declaration for the year ended 30 June 2023 as required by section 307C of the Corporations Act 2001 is set out on page number 6.

To the Directors of Dairy Farmers Milk Co-operative Limited**Auditors Independence Declaration under Section 307C of the *Corporations Act 2001***

As lead audit director for the audit of the financial statements of Dairy Farmers Milk Co-operative Limited for the financial year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

**Nexia Sydney Audit Pty Ltd****Vishal Modi**

Director

ASIC registered company auditor no.: 486119

Dated at Sydney this 30th day of October 2023

Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399) is a firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd. Nexia Australia Pty Ltd is a member of Nexia International, a leading, global network of independent accounting and consulting firms. For more information please see www.nexia.com.au/legal. Neither Nexia International nor Nexia Australia Pty Ltd provide services to clients.

Liability limited under a scheme approved under Professional Standards Legislation.

THE BOARD OF DIRECTORS

Board composition

The DFMC Board comprised six directors: five farmer directors and one independent director.

Andrew Wilson became the director for region 5, Victoria.

Sandy Rathjen resigned from the board in May 2023.

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

Board responsibilities

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

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

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

AUDIT, FINANCE AND GOVERNANCE COMMITTEE

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- John Maher (Chair)
- Andrew Burnett
- Sandy Rathjen

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 exaudit partners to be appointed as directors.
- (c) Audit plans: The committee reviews and approves the overall scope and plans for audit activities, including staffing and fees.
- (d) Audit reports: The committee reviews all reports provided by the external auditor.

MEMBER SERVICES COMMITTEE

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.
- Letters, emails and SMS messages.
- DFMC website www.dfmc.org.au

WRAC

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

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

- Issues are considered in the context of the farms and farmers from within the WRAC member's region.
- 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:

- Trevor Middlebrook (chair)
- James Geraghty
- Sandy Rathjen
- Andrew Wilson

Access

The committee maintains detailed records on competitive milk pricing, utilises pricing spreadsheets and engages in negotiations with Lion / Bega 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 provide guidance and approval to nominated management who 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 and management:

- 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/BDD commercial sales of milk products that determine DFMC Regional AFD.
- Monitors historical production data taking into account the processors entire milk intake.



STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Sales revenue	2	103,824	95,544
Cost of sales		(103,824)	(95,544)
Gross profit		-	-
Aggregation fee revenue	2	450	300
Service fee revenue	2	14	68
Administration expenses	3	(1,180)	(1,102)
Net administration result		(716)	(734)
Investment revenue			
Dividend revenue – Equities	2	718	857
Interest revenue	2	70	12
Fees and charges			
Portfolio advisory fees, interest and other charges	3	(51)	(59)
Net investment and financing result		737	810
Profit / (loss) from continuing operations before income tax		21	76
Income tax (expense) / benefit	4	(9)	8
Profit / (loss) from continuing operations after income tax before member distributions		12	84
Members' dividend payments* - ordinary	5	(175)	-
Farmers rebate	5	(157)	-
Profit / (loss) for the year	17	(320)	84
Other comprehensive Income: Items that may be reclassified to profit or loss, net of tax			
Net profit / (loss) on sale of financial assets		144	165
Net profit / (loss) on revaluation of financial assets		1,010	(1,633)
Other comprehensive income for the year		1,154	(1,468)
Total comprehensive income/(loss) for the year attributable to members of the Co-operative		834	(1,384)

* Note that in accordance with AIFRS, dividends 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(l), 5 and 16.

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 2023

	Notes	2023 \$'000	2022 \$'000
Current assets			
Cash and cash equivalents	6	890	2,669
Receivables	7	576	244
Other current assets	8	189	17
Financial assets	9	1,950	1,103
Total current assets		3,605	4,033
Non-current assets			
Financial assets	9	15,814	14,554
Deferred tax asset	10	40	49
Right-of-use assets	11	50	1
Property, plant and equipment		-	1
Intangible assets		7	10
Total non-current assets		15,911	14,615
Total assets		19,516	18,648
Current liabilities			
Payables	12	142	162
Contract liability	13	150	-
Lease liability	14	13	1
Provisions	15	75	55
Total current liabilities		380	218
Non-current liabilities			
Provisions	15	30	19
Members' share capital*	16	2,732	2,475
Lease liability	14	42	-
Total non-current liabilities		2,804	2,494
Total Liabilities		3,184	2,712
Net Assets		16,332	15,936
Equity			
Retained profits	17	12,503	13,261
Reserves	20	3,829	2,675
Total equity		16,332	15,936

* Note that in accordance with AIFRS, dividends 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(l), 5 and 16.

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

STATEMENT OF CHANGES IN EQUITY

	Retained profits \$'000	Financial assets Reserve \$'000	Total \$'000
For the year ended 30 June 2023			
Balance at 30 June 2021*	13,012	4,308	17,320
Profit attributable to the Co-operative	84	-	84
Transfer to retained profits	165	(165)	-
Total other comprehensive income / (loss) for the year	-	(1,468)	(1,468)
Balance at 30 June 2022*	13,261	2,675	15,936
Loss attributable to the Co-operative	(320)	-	(320)
Transfer to retained profits	-	-	-
Issue of bonus shares	(438)	-	(438)
Total other comprehensive income / (loss) for the year	-	1,154	1,154
Balance at 30 June 2023*	12,503	3,829	16,332

* Note that in accordance with AIFRS, dividends 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(l), 5 and 16.

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

STATEMENT OF CASH FLOWS



For the year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers		236	271
Payments to suppliers, employees and directors		(1,255)	(1,265)
Dividends received		718	857
Interest received		71	12
Dividends and farm rebates paid		(190)	-
Net operating cash flows	25	(420)	(125)
Cash flows from investing activities			
Payment for investment in financial assets		(107)	(399)
Proceeds from sale of financial assets		-	600
Proceeds from maturity of term deposits		-	1,716
Payments to acquire term deposits		(847)	-
Net investing cash flows		(954)	1,917
Cash flows from financing activities			
Share subscriptions received		-	-
Farm loans issued		(244)	(265)
Farm loan repayments received		162	422
Repayment of lease liability		-	(22)
Repayment of share forfeitures		(323)	(216)
Net financing cash flows		(405)	(81)
Net increase / (decrease) in cash		(1,779)	1,711
Cash at the beginning of the financial year		2,669	958
Cash at the end of the year	6	890	2,669

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.

These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). 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 2023 were approved and authorised for issue by the Board of Directors on 30 October 2023.

(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.

(iii) 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 (cashgenerating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(e) Payables (note 12)

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 15)

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.

(g) Employee benefits (note 15 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 16)

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) Right-of-use assets (note 11)

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Co-operative expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The Co-operative has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(j) Lease liabilities (note 14)

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Co-operative's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease

liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(k) 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 Co-operative 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) Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Co-operative is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Co-operative: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

iii) Aggregation fee revenue

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

iv) Dividends

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

Notes to the Financial Statements continued

Note 1: Summary of Significant Accounting Policies (continued)

v) Interest income

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

(l) 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.

(m) 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 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 Co-operative 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.

(n) Reporting period

The financial report has been prepared for the financial year ended 30 June 2023.

(o) 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.

(p) 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.

(q) Comparative figures

Comparatives are consistent with prior period, unless stated otherwise.

(r) New accounting standards

New and revised standards are effective for annual periods beginning on or after 1 July 2022

The Co-operative has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board

('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(s) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Co-operative 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

All investments that 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 financial assets reserve). Realised gains or losses on the sale of investments are also shown in the financial assets 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.

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.

(s) Financial instruments (continued)

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 Cooperative 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.

(t) Significant judgments in applying accounting policies

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.

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.

(u) Contract liabilities

Contract liabilities represent the co-operative's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the co-operative recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the cooperative has transferred the goods or services to the customer.

Notes to the Financial Statements continued

	2023 \$'000	2022 \$'000
Note 2: Revenue and other income		
Revenue from continuing operations		
<i>Sales revenue</i>		
Sales revenue – sale of goods to DFL (a)	103,824	95,544
	<u>103,824</u>	<u>95,544</u>
<i>Other administration and investment revenue</i>		
Aggregation fee revenue (b)	450	300
Dividend revenue – Equities	718	857
Interest revenue	70	12
Service fee revenue	14	68
	<u>1,252</u>	<u>1,237</u>
Total revenue from continuing operations	<u>105,076</u>	<u>96,781</u>
<i>Revenue from contracts with customers</i>		
Sales revenue	103,824	95,544
Aggregation fee revenue	450	300
Services fee revenue	14	68
	<u>104,288</u>	<u>95,912</u>
<i>Other revenue</i>		
Dividend revenue	718	857
Interest revenue	70	12
	<u>788</u>	<u>869</u>
Total revenue and other income	<u>105,076</u>	<u>96,781</u>

(a) Sale of goods to DFL

In April 2023, the ACCC has granted re-authorisation of the Milk Supply Agreement for 10 years, until 31 July 2033.

DFMC and DFL had 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 and in April 2023, the ACCC has granted re-authorisation of the Milk Supply Agreement for 10 years, until 31 July 2033.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, the Aggregation Fee for the year ended 30 June 2023 was agreed at \$450,000 (2022: \$300,000). The Aggregation Fee partially covers the costs or expenses connected with the consolidation or aggregation of the milk supply for on sale to DFL.

Note 3: Expenses

Profit before income tax includes the following specific expenses

	2023 \$'000	2022 \$'000
Fees and charges		
Portfolio advisory fees and bank charges	50	59
Interest expense – lease liability	1	-
	<u>51</u>	<u>59</u>
Administration expenses		
Employee and director benefits expense	692	681
Defined contribution superannuation expense	72	68
Travel expenses	64	28
Consultancy fees	31	48
Legal fees	19	13
Other expenses	302	264
	<u>1,180</u>	<u>1,102</u>

Note 4: Income tax

(a) Income tax expense reconciliation

	2023 \$'000	2022 \$'000
Profit/(Loss) before income tax	<u>(311)</u>	<u>76</u>
Income tax (benefit)/expense calculated at 30%	(93)	23
Tax effect of amounts not deductible or (taxable)		
Other non-deductible expenditure	1	3
Other assessable income	2	67
Franked amount of member's share capital payment	52	-
Franked dividend revenue	100	77
	<u>62</u>	<u>170</u>
Carried forward tax losses where no deferred tax effect has been recognised	<u>(53)</u>	<u>(178)</u>
Income tax (benefit) / expense	<u>9</u>	<u>(8)</u>

Average effective tax rate	3%	10.4%
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(b) Income tax expense analysis

Deferred tax		
Changes in deferred tax assets (Note 10)	9	(8)
Income tax (benefit)/expense	<u>9</u>	<u>(8)</u>

(c) Unrecognised tax losses

Unused tax losses for which no deferred tax asset has been recognised	13,881	14,354
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	<u>4,164</u>	<u>4,306</u>

Notes to the Financial Statements continued

	2023 \$'000	2022 \$'000
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Note 5: Dividends on Members' Share Capital

In accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability and dividends payable to members on their ordinary shares are included as costs within the statement of profit and loss.

The amount of these 'dividends' on ordinary shares are as follows:

Dividends

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

Payment date	17/10/2022	-
Dividend per share	\$0.08	-
Per cent franked	100%	-
Paid in cash	89	-
Re-invested in DFMC shares	86	-
Total ordinary dividends paid during the financial year	175	-

b) At the board meeting held on October 2022, the board approved payment of a rebate to eligible members at the rate of \$1.00 for each 1,000 litres of milk supplied in the 2021/22 financial year

Payment date	17/10/2022	-
Rate per 1,000 litres supplied in FY2022	\$1.00	-
Paid in cash	101	-
Re-invested in DFMC shares	56	-
Total rebate paid during the financial year	157	-

Franking credits

c) Franking credits available for subsequent financial years	1,416	1,236
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The above franking account balance has been adjusted for:

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

Interest payable at dividend rate

- 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. No amounts were retained, under these provisions, in the financial year ended 30 June 2023 and therefore no interest was paid.

	2023 \$'000	2022 \$'000
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Note 6: Cash and cash equivalents

Cash and cash equivalents	890	2,669
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Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at 4.49% (2022: 0.45%).

Note 7: Receivables	2023	2022
	\$'000	\$'000
Current		
Other receivables	576	244

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2023	\$	\$	\$	\$	\$	\$	\$
Other receivables	576	-	-	-	-	-	576

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
2022	\$	\$	\$	\$	\$	\$	\$
Other receivables	244	-	-	-	-	-	244

Note 8: Other current assets	2023	2022
	\$'000	\$'000
Prepayments	189	17
	189	17

Note 9: Financial assets

Current		
Financial assets at amortised cost (term deposits)	1,950	1,103
Financial assets at Fair Value Through Other Comprehensive Income – shares in listed corporations	15,814	14,554

(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.

Notes to the Financial Statements continued

	2023 \$'000	2022 \$'000
Note 10: Deferred tax assets and liabilities		
Deferred tax assets		
Accruals	7	27
Employee provisions	31	22
Leases	1	-
Carried forward tax losses	1,148	803
Total deferred tax assets	1,187	852
(a) Movements in deferred tax assets		
Balance at the beginning of the year	852	1,333
Opening balance adjustment	(164)	(16)
Credited to the income statement	(9)	9
Charge to equity	509	(474)
Over in prior year	-	-
Balance at the end of the year	1,188	852
(b) Timing of recovery		
To be recovered		
Within 12 months	1,179	846
After 12 months	9	6
	1,188	852
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	1,148	803
Total deferred tax liabilities	1,148	803
(c) Movements in deferred tax liabilities		
Balance at the beginning of the year	803	1,293
Opening Balance Adjustment	(164)	(16)
Charged to equity	509	(474)
Balance at the end of the year	1,148	803
(d) Timing of settlement		
To be settled		
Within 12 months	1,148	803
	1,148	803
Total net deferred tax balances	40	49
	2023 \$'000	2022 \$'000
Note 11: Right-of-use assets		
Right-of-use assets – motor vehicles	53	68
Less: accumulated depreciation	(3)	(67)
	50	1

The right-of-use assets are in relation to motor vehicles leased by the Co-operative.

	2023 \$'000	2022 \$'000
Note 12: Payables		
Trade creditors and accruals	142	162
	<hr/>	<hr/>
	2023 \$'000	2022 \$'000
Note 13: Contract liability		
Deferred income	150	-
	<hr/>	<hr/>
	2023 \$'000	2022 \$'000
Note 14: Lease liabilities		
Current		
Lease liabilities	13	1
	<hr/>	<hr/>
Non-current		
Lease liabilities	42	-
	<hr/>	<hr/>
The lease liabilities are in relation to motor vehicles leased by the Co-operative.		
	2023 \$'000	2022 \$'000
Note 15: Provisions		
Current		
Employee benefits	75	55
	<hr/>	<hr/>
Non-current		
Employee benefits	30	19
	<hr/>	<hr/>
Balance at the beginning of the year	74	87
Charged to the statement of comprehensive income	65	26
Amounts used	(34)	(39)
	<hr/>	<hr/>
Balance at the end of the year	105	74
	<hr/>	<hr/>

	Number of Shares		Nominal Value	
	2023 #	2022 #	2023 \$'000	2022 \$'000
Note 16: Members' Share Capital				
Opening balance – shares of \$1 each (fully paid)	2,475,267	2,691,133	2,475	2,691
Shares issued (reinvestment)	153,245	-	153	-
Bonus shares issued*	437,180	-	437	-
Share levies (a)	43,902	72,684	44	73
Shares forfeited (b)	(377,280)	(288,550)	(377)	(289)
	<hr/>	<hr/>	<hr/>	<hr/>
Closing balance – shares of \$1 each (fully paid)	2,732,314	2,475,267	2,732	2,475
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at the end of the year	2,732,314	2,475,267	2,732	2,475
	<hr/>	<hr/>	<hr/>	<hr/>

*On 17 October 2022, 1 bonus share was issued for every 5 shares held

Notes to the Financial Statements continued

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).

(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.

	2023 \$'000	2022 \$'000
Note 17: Retained profits		
Balance at the beginning of the year	13,261	13,012
Profit /(Loss) attributable to members	(320)	84
Transfers to/(from) retained profits to reserves	-	165
Dividends declared	(438)	
Balance at the end of the year	12,503	13,261

Note 18: Commitments for expenditure

The Co-operative had nil commitments as at 30 June 2023 (2022: nil).

Note 19: Contingent liabilities and Contingent assets

The Co-operative had no contingent liabilities or assets as at 30 June 2023 (2022: nil).

	2023 \$'000	2022 \$'000
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Note 20: Financial assets reserve

The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value through other comprehensive income.

3,829	2,675
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	2023 \$	2022 \$
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Note 21: Auditors' remuneration

Amount received, or due and receivable by Nexia Sydney Audit Pty Ltd for audit of the financial report

20,750	19,250
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Amount received, or due and receivable for other services

25,000	25,000
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Note 22: Key management personnel disclosures

(a) Directors

The directors of the Co-operative the date of the Directors' Report were:

Andrew Burnett (Chairman), John Maher, James Geraghty, Trevor Middlebrook, Andrew Wilson and Sandy Rathjen.

(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 22(d).

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

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

The total fees paid are within the limit approved by members.

The board commits to fair and responsible remuneration policies by ensuring that the level and composition of remuneration packages recognises market levels and is sufficient to attract and retain motivated directors. The focus of the board is on the long-term strategic direction and overall performance of the Co-operative. As a consequence, director remuneration is not directly related to short-term results. The board engaged independent consultancy company Mercer to assist in establishing the Executive Officer remuneration, taking into account reasonable market remuneration for the role and responsibilities.

Notes to the Financial Statements continued

Note 22: Key management personnel disclosures (continued)

(d) Key management personnel compensation

	2023	2022
	\$	\$
Short-term employment benefits	692,023	680,694
Post-employment benefits (superannuation)	71,640	68,439
Total key management personnel compensation	763,663	749,133

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	40,000
Other directors	5	75,000

(e) Other transactions with key management personnel

a. Farmer directors

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

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

Note 23: 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))

Note 24: 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).

	2023 \$'000	2022 \$'000
Note 25: Cash flow reconciliation		
Profit / (loss) attributable to members	(320)	84
<i>Non-cash items in operating profit</i>		
Depreciation and amortisation	9	33
Dividend and farm rebate reinvestment	142	-
<i>Movement in assets and liabilities</i>		
(Increase) / decrease in prepayments	(172)	(8)
(Increase) / decrease in receivables	(250)	(122)
Increase / (decrease) in deferred tax asset	9	(8)
Increase / (decrease) in payables and accruals	130	(92)
Increase / (decrease) in provisions	32	(13)
Net cash inflow from operating activities	<u>(420)</u>	<u>(125)</u>

Note 26: 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 to the Financial Statements continued

Note 26: Financial risk management (continued)

	Notes	2023 \$'000	2022 \$'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	890	2,669
Loans and receivables	7	576	244
Financial assets at amortised cost (term deposits)	9	1,950	1,103
Financial assets at fair value through OCI	9	15,814	14,554

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

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

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

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

Liquidity risk

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

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

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Note 26: Financial risk management (continued)

At 30 June 2023 the Co-operative's financial assets and liabilities are as follows:

	Note	2023 \$'000	2022 \$'000
Financial assets			
Cash and cash equivalents	6	890	2,669
Loans and receivables	7	576	244
Financial assets at amortised cost (term deposits)	9	1,950	1,103
Financial Assets at fair value through OCI:			
- listed investments	9	15,814	14,554
Total financial assets		19,230	18,570
Financial liabilities			
Financial liabilities at amortised cost:			
- trade and other payables	12	142	162
- lease liability	14	55	1
- members' share capital	16	2,732	2,475
Total financial liabilities		2,929	3,466

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

Notes to the Financial Statements continued

Note 26: Financial risk management (continued)

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Financial liabilities due for payment								
Trade and other payables	142	162	-	-	-	-	142	162
Lease liabilities	13	1	42	-	-	-	55	1
Members' share capital	-	-	-	-	2,732	2,475	2,732	2,475
Total contractual outflows	155	163	42	-	2,732	2,475	2,929	2,638
Total expected outflows	155	163	42	-	2,732	2,475	2,929	2,638
Financial assets — cash flows realisable								
Cash and cash equivalents	890	2,669	-	-	-	-	890	2,669
Financial assets at amortised cost	1,950	1,103	-	-	-	-	1,950	1,103
Trade, term and loan receivables	576	244	-	-	-	-	576	244
Financial assets at fair value through OCI	-	-	-	-	15,814	14,554	15,814	14,554
Total anticipated inflows	3,416	4,016	-	-	15,814	14,554	19,230	18,570
Net inflow on financial instruments	3,261	3,853	(42)	-	13,082	12,079	16,301	15,932

Note 26: Financial risk management (continued)

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

	2023	2022
	\$'000	\$'000
Banks	3,404	3,444
Capital Goods	248	-
Commercial services & supplies	402	299
Diversified financials	752	592
Energy	812	1,209
Food & staples retailing	591	-
Food & drug retailing	82	559
Health care equipment & services	258	336
Insurance	293	227
Materials	1,836	1,704
Media and entertainment	1,109	810
Pharmaceuticals & Biotechnology	789	765
Real estate	42	41
Retailing	334	283
Telecommunication services	371	332
Transportation	748	738
Other	3,743	3,215
	15,814	14,554

Price risk

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

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

Sensitivity analysis

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

	Profit	Equity
	\$'000	\$'000
Year ended 30 June 2023		
+/- 2% in interest rates	+/- 35	+/- 35
+/-10% in listed investments	N/A	+/- 1,546
Year ended 30 June 2022		
+/- 2% in interest rates	+/- 73	+/- 73
+/-10% in listed investments	N/A	+/- 1,594

As investments are classified as financial assets at fair value through other comprehensive income, movement in fair value is recorded in reserves. Therefore, there is no impact on profit/loss projected.

Notes to the Financial Statements continued

Note 26: Financial risk management (continued)

Net fair values

Fair value estimation

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

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

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the company. Most of these instruments which are carried at amortised cost (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.

		2023		2022	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents	(i)	890	890	2,669	2,669
Financial assets at amortised cost	(i)	1,950	1,950	1,103	1,103
Trade and other receivables	(i)	576	576	244	244
		3,416	3,416	4,016	4,016
Financial asset at fair value through other comprehensive income:					
– Listed Investments		15,814	15,814	14,554	14,554
Total financial asset at fair value through other comprehensive income	(iii)	15,814	15,814	14,554	14,554
Total financial assets		19,230	19,230	18,570	18,570
Financial liabilities					
Trade and other payables	(i)	142	142	162	162
Lease liabilities	(iv)	55	55	1	1
Members' share capital	(iv)	2,732	2,732	2,475	2,475
Total financial liabilities		2,929	2,929	2,638	2,638

Note 26: Financial risk management (continued)

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

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

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).

2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
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Financial assets

Financial asset at fair value through other comprehensive income:

▪ listed investments	15,814	-	-
	15,814	-	-

2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
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Financial assets

Financial asset at fair value through other comprehensive income:

▪ listed investments	14,554	-	-
	14,554	-	-

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

Notes to the Financial Statements continued

Note 27: 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 28: 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 9 to 33 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 2023 and of its performance for the year ended on that date

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.

A handwritten signature in black ink, appearing to read 'ABNB' followed by a stylized flourish.

Andrew Burnett
Chairman
30 October 2023

A handwritten signature in black ink, appearing to read 'J.S. Maher'.

John Maher
Independent Director
30 October 2023

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Dairy Farmers Milk Co-operative Limited (the Co-operative), which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i) giving a true and fair view of the Co-operative's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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 Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Co-operative, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information comprises the information in Dairy Farmers Milk Co-operative Limited's annual report for the year ended 30 June 2023, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

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 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Co-operative'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 directors either intend to liquidate the Co-operative or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility 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 the 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.



Nexia Sydney Audit Pty Ltd



Vishal Modi
Director

Dated: 30th day of October 2023

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