DAIRY FARMERS MILK CO-OPERATIVE ANNUAL REPORT 2021

YEAR ENDED 30 JUNE 2021

ARBN: 108 690 384

Contents

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 McKillop

Sandy Rathjen

Greg Ault

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Nexia Sydney Audit Pty Ltd

SOLICITORS

Addisons Lawyers

EXECUTIVE OFFICER & SECRETARY

Mark Kebbell

Chairman's Report

On behalf of the board of the Dairy Farmers Milk Co-operative I present the Chairman's report for the financial year 2021.

Dairy Farmers Milk Co-operative (DFMC) is a farmer owned, farmer run supply co-operative and relies upon a partnership with a milk processor. For many years this has been with Lion Dairy and Drinks. February 2021 saw the sale of LD &D to Bega Cheese, along with the sale of assets and brands was the transition of our Milk Supply Agreement (MSA). We now partner with Bega Dairy & Drinks and look forward to a long and prosperous relationship.

On behalf of the board, I would like to thank Kathy Karabatsis and the Lion team for the support they gave DFMC over many years. I would also like to thank the management team of DFMC and its supplier members for their patience and commitment during a long sale process.

The Bega team lead by Barry Irvin and Paul Van Heerwaarden ensured a smooth transition. There are many familiar faces and old friends, so a working relationship between the two businesses was quickly formed. This resulted in good outcomes for our farmer members. More milk was required, so growth incentives and new milk bonuses were introduced. Farmgate milk prices were very competitive, and negotiations delivered strong prices in some regions and leading prices in other regions. The result was that the Co-op experienced growth in SEQ and NSW, but lost supplying members in Victoria and South Australia.

In December we said goodbye to the Sherborne family as they chose to move their supply elsewhere. Grant Sherborne was a director of the board for 5yrs, a previous WRAC member and lifetime supporter of the co-operative. On behalf of the board, I wish to thank Grant for his service, dedication, and commitment. This left a casual vacancy in the NSW region, resulting in an election. Stephen Downes won that election but declined to accept due to changing family and business circumstance. The board decided to leave the position open until it could be filled at the 2021 AGM.

The board welcomed Sandy Rathjen from South Australia and Greg Ault from Northern Victoria as Directors for their regions. It is always refreshing and motivating when new directors come to the board and Sandy and Greg represented their regions and members interests with great commitment and pride.

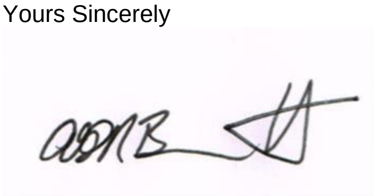
One of the key strengths of the Co-op is its ability to reach and communicate with the members and we were determined not to let Covid hold this back. Many supplier meetings were held on-line and well attended. Board meetings were also conducted online which have now become normal, saving time and costs, but still result in useful and fulfilling meetings. Special mention must go to our staff on the ground, Regional Managers Dom Baxter and Tony Burnett as Covid severely impacted their ability to travel and meet with farms face-to-face. Watching border closures, extra phone calls and emails became necessary to ensure our member received to level of service they have become accustomed too. All these processes were overseen by the Co-op's Executive Officer Mark Kebbell. On behalf of the board, I want to sincerely thank Mark for his commitment and dedication which resulted in a strong year for DFMC.

Milk production from members was 177 million litres, down from the previous year 185 million litres. As the year progressed climatic conditions were favourable, and some production costs reduced giving our members more favourable trading terms. This was the second financial year with the reduced aggregation fee, coupled with lower interest rates resulting in the Co-op's income being substantially reduced. The board has continued to drive cost out of the business, however a net loss of $422,000 from continuing operations after tax and before member distributions will be reported.

Again, I would like to thank the management team and my fellow directors for their efforts to ensure we delivered for our members.

Finally, and most importantly, I wish to thank the members for their milk supply and commitment to the Co-operative. Collectively we have overcome the challenges of the year and positioned ourselves to take advantage of the opportunities that present in the future.

Yours Sincerely



Andrew Burnett
Chairman Dairy Farmers Milk Co-operative

Executive Officers Report

The uncertainty created by the Covid-19 pandemic that hit the world earlier in the calendar year was no less by the first quarter of the financial year. The worldwide consumer spending patterns were still unpredictable with Australian consumer "pantry stocking" at the beginning of the pandemic settling into more structural patterns as lockdowns became the norm around the world. Dairy products domestically and internationally were of course impacted with some categories enjoying good growth – butter and fresh milk particularly.

The Australian dairy industry responded very well as an "essential service" with the supply chain from the farm-gate not visibly impacted and good seasons in most dairy regions along the east coast making the life of a dairy farmer seem almost charmed in comparison to the droughts and fires of recent years and the lockdowns encountered by their city cousins.

The positivity and industry confidence built through the year as strong domestic demand and global fundamentals were supported by favourable weather conditions in most regions through the year. The floods in New South Wales North Coast, Gloucester, and South Coast during early in the year being the notable exception.

The sale of Lion Dairy & Drinks business resumed following the Foreign Investment Review Board (FIRB) decision to reject the proposed sale to Mengniu. Bega Cheese were announced as the new owner and the transition was affected in late January 2021. Early meetings with Bega senior personnel including Executive Chairman Barry Irvin, CEO Paul van Heerwaarden and Executive General Manager – Beverages Mark McDonald were constructive and set the tone for good working relations across the board.

Production

The sustained La Nina weather event kept soil moisture levels high helping input prices for feed and water stay below long-term averages in the main while the opportunity to conserve good quantities of feed was welcomed.

Although milk production nationally did not grow from the prior year several DFMC regions did produce more milk. An unseasonably damp autumn and winter in Far North Queensland led into a mild spring and production for the region finished slightly up on 2019/20 at 44 million litres (ML). Again, the milk volumes were closer to the Malanda factory's processing needs and little milk was transported south. Our South-East Queensland suppliers faced a drier start to spring but generally faced favourable conditions through the year with 31.5 ML milk produced, also slightly up on the prior year.

DFMC suppliers in NSW was again down marginally from 2019/20 to 57.7ML. Our Northern Victorian supplier base produced a little over a million more litres than the year prior at 33.5ML while in South Australia a smaller supplier base produced substantially less milk at 10.5ML.

Milk price

As members know all too well the farmgate milk pricing negotiations each year are an important element of DFMC's role in representing members' interests. This year the discussions were all held online with Covid restrictions determining the new Bega team and DFMC representatives could not meet face to face at all.

The Dairy Code of Conduct of course mandates that all prices be published on June 1 and with the competition for milk from the processors showing no sign of abating the announcements in all regions were strong. As has become the practice since the Code was introduced there were several increases announced by processors as competitive positions became clear. Each region has its unique supply and demand pressures driving farmgate prices. This year we re-introduced new milk and growth incentives in line with Bega offerings in the Bega valley and Victoria. Farm gate prices in all regions are strong and in some cases market leading.

Financial Performance

The current milk supply agreement (MSA) with Bega includes an aggregation fee of $300,000 per year and we again budgeted for a loss. We reported our second loss, $422,000 from continuing operations after tax which again was better than budgeted. Again, the impacts of Covid continue to preclude staff from travelling as we had planned with the consequential savings to budget. Importantly revenue from services to other dairy farming groups is growing.

Importantly, our investment portfolio, which was set aside for the transition scenario we are currently in, has performed particularly strongly in a year of extreme volatility and uncertainty. The portfolio valuation at year-end is $16.2 million which is an increase of 25.12%. This performance necessitates year-end adjustments to the Profit & Loss statement with a net profit on revaluation of financial assets, net of tax $3.23 million. The co-operative therefore has reported a total comprehensive income for the year attributable to members of the Co-operative $2.87 million.

Partnerships

It is important to reaffirm how important it is to have a constructive working relationship with our milk processing partners. In a year of great change with the ownership change and transition in the third quarter of the financial year we built a solid working relationship quickly with Bega management and staff. Thanks particularly go to Mark McDonald and the milk supply team for the continued support.

Acknowledgements

The directors again had a difficult year with travel restrictions negating the ability to meet face-to-face as a board and limiting the ability to meet with suppliers in the regions they represent. It is worth highlighting the important role they play in a co-operative which can be described as parliamentary insofar as they are all regional representatives apart from our independent director. The ability to step back and make decisions for the greater good is often difficult and requires a degree of selflessness. The directors continue to provide great support for the management team.

It is important to note that with the reduced travel, and the time commitment that requires, the directors agreed to temporarily reduce the director fees by a little more than 30%.

Again, regional managers Dom Baxter and Tony Burnett were severely restricted in their ability to travel and support members. Border closures and lockdowns were never contemplated as hurdles in carrying out their responsibilities and roles and yet again they have tried to keep service levels up. Clearly this comes with significant compromise, and we all look forward to restrictions easing.

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 2021.

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 McKillop
- Sandy Rathjen (appointed on November 10, 2020)
- Greg Ault (appointed on November 10, 2020)
- Grant Sherborne (resigned on November 30, 2020)

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

Loss from continuing operations after income tax and before member distributions of $ 422 thousand (2020: loss of $364 thousand).

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

Dividends

No dividends were declared in the current year. 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 2020/21 financial year.

Subsequent Events

Bega Dairy & Drinks (BDD) (formerly Lion Dairy and Drinks) has maintained their commercial milk requirements for DFMC which will see similar commercial requirements of Milk for BDD in 2021/22financial 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.

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 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 2021 as required by section 307C of the Corporations Act 2001 is set out on page number 5.

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

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 2021, 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

Vishal Modi
Director

ASIC registered company auditor no.: 486119

Dated at Sydney this 4th day of November 2021

Corporate Governance

THE BOARD OF DIRECTORS

Board composition

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

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 McKillop (Chair)
- Andrew Burnett
- James Geraghty
- 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 ex-audit partners to be appointed as directors.

(c) Audit plans: The committee reviews and approves the overall scope and plans for audit activities, including staffing and fees.

(d) Audit reports: The committee reviews all reports provided by the external auditor.

MEMBER SERVICES COMMITTEE

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.
- Members attend two key WRAC/DFMC strategic workshops during the year.
- WRAC members are provided with skills-based training to better prepare them as leaders of the dairy industry.

Farmer Development

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

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

MILK PRICE AND POLICY COMMITTEE

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- Andrew Burnett
- James Geraghty
- Sandy Rathjen
- Greg Ault

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 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/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 2021	Notes	2021 $'000	2020 $'000
Sales revenue	2	107,979	112,686
Cost of sales		107,979	(112,686)
Gross profit		-	-
Aggregation fee revenue	2	328	300
Administration expenses	3	(1,158)	(1,275)
Net administration result		(830)	(975)
Investment revenue			
Dividend revenue – Equities	2	405	514
Interest revenue	2	42	134
Gain on sale of equity investments	2	45	-
Fees and charges			
Portfolio advisory fees, interest and other charges	3	(65)	(68)
Net investment and financing result		427	580
Profit / (loss) from continuing operations before income tax		(403)	(395)
Income tax (expense) / benefit	4	(19)	31
Profit / (loss) from continuing operations after income tax before member distributions		(422)	(364)
Members' dividend payments* - ordinary	5	-	(135)
Profit / (loss) for the year	17	(422)	(499)
Other comprehensive Income: Items that may be reclassified to profit or loss			
Net profit on revaluation of financial assets, net of tax		3,293	(657)
Other comprehensive income for the year		3,293	(657)
Total comprehensive income/(loss) for the year attributable to members of the Co-operative		2,871	(1,156)

* 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 2021	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	6	958	5,122
Receivables	7	279	300
Other current assets	8	12	12
Financial assets	9	2,819	1,000
Total current assets		4,068	6,434
Non-current assets			
Financial assets	9	16,223	11,823
Deferred tax asset	10	40	-
Right-of-use assets	11	23	46
Property, plant and equipment		3	7
Intangible assets		19	-
Total non-current assets		16,308	11,876
Total assets		20,376	18,310
Current liabilities			
Payables	12	254	277
Other liabilities	13	-	75
Lease liability	14	23	22
Provisions	15	56	64
Total current liabilities		333	438
Non-current liabilities			
Provisions	15	31	23
Members' share capital*	16	2,691	3,143
Lease liability	14	1	24
Deferred tax liabilities	10	-	233
Total non-current liabilities		2,723	3,423
Total Liabilities		3,056	3,861
Net Assets		17,320	14,449
Equity			
Retained profits	17	13,012	12,944
Reserves	20	4,308	1,505
Total equity		17,320	14,449

* 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 16.

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 2021	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2019*	13,443	2,162	15,605
Loss attributable to the Co-operative	(499)	-	(499)
Total other comprehensive income for the year	-	(657)	(657)
Balance at 30 June 2020*	12,944	1,505	14,449
Loss attributable to the Co-operative	(422)	-	(422)
Transfer of financial assets reserve to retained profits	490	(490)	-
Total other comprehensive income for the year	-	3,293	3,293
Balance at 30 June 2021*	13,012	4,308	17,320

* 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 16.

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 2021	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		331	876
Payments to suppliers, employees and directors		(1,318)	(1,479)
Dividends received		405	514
Interest received		42	134
Dividends and farm rebates paid - ordinary shares		-	(78)
Net operating cash flows	25	(540)	(33)
Cash flows from investing activities			
Payment for investment in equities		(1,455)	(98)
Proceeds from sale of investments		100	150
Payment for property, plant, equipment, and intangible assets		(27)	-
Proceeds from maturity of term deposits		-	4,661
Payments to acquire term deposits		(1,818)	-
Net investing cash flows		(3,200)	4,713
Cash flows from financing activities			
Share subscriptions received		-	180
Farm loans issued		(580)	(744)
Farm loan repayments received		628	736
Repayment of lease liability		(22)	(22)
Repayment of share forfeitures		(450)	(539)
Net financing cash flows		(424)	(389)
Net increase / (decrease) in cash		(4,164)	4,291
Cash at the beginning of the financial year		5,122	831
Cash at the end of the year	6	958	5,122

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 2021 were approved and authorised for issue by the Board of Directors on 4 November 2021.

(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 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.

Note 1: Summary of Significant Accounting Policies (continued)

(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.

v) Interest income

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

Note 1: Summary of Significant Accounting Policies (continued)

(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 2021.

(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 2020

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.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Co-operative for the annual reporting period ended 30 June 2021. The Co-operative's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Co-operative, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Co-operative has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Co-operative may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Co-operative's financial statements.

AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*

This Standard amends AASB 101 *Presentation of Financial Statements* to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. This Standard applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. At this time, the application of this standard is not expected to have a material impact on the Co-operative's financial statements.

(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

Following the 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 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.

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 Co-operative 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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Co-operative based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Co-operative operates.

Notes to the Financial Statements

Note 2: Revenue and other income	2021 $'000	2020 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	107,979	112,686
	107,979	112,686
Other administration and investment revenue		
Aggregation fee revenue (b)	328	300
Dividend revenue – Equities	405	514
Capital gain on equity investments	45	-
Interest revenue	42	134
	820	9,48
Total revenue from continuing operations	108,799	113,634

(a) Sale of goods to DFL

DFMC has signed an Amendment and Restatement Deed Milk Supply Agreement with DFL which will expire on 30 June 2022.

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.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, the Aggregation Fee for the year ended 30 June 2021 was agreed at $300,000 (2020: $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.

Notes to the Financial Statements

Note 3: Expenses	2021 $'000	2020 $'000
Profit before income tax includes the following specific expenses		
Fees and charges		
Portfolio advisory fees and bank charges	63	65
Interest expense – lease liability	2	3
	65	68
Administration expenses		
Employee and director benefits expense	736	778
Defined contribution superannuation expense	70	71
Travel expenses	19	65
Consultancy fees	47	40
Legal fees	36	86
Other expenses	250	235
	1,158	1,275

Note 4: Income tax	2021 $'000	2020 $'000
(a) Income tax expense reconciliation		
Profit/(Loss) before income tax	(403)	(530)
Income tax (benefit)/expense calculated at 30% (2020: 30%)	(121)	(158)
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	-	20
Other non-deductible expenditure	-	-
Franked dividend revenue	45	54
	(76)	(84)
Recognition of prior period tax losses not recognised in prior years	-	-
Carried forward tax losses where no deferred tax effect has been recognised	95	59
Over provided in prior years	-	(6)
Income tax benefit	(19)	(31)
Average effective tax rate	4.7%	(5.9%)
(b) Income tax expense analysis		
Deferred tax		
Changes in deferred tax assets (Note 10)	19	(31)
Income tax (benefit)/expense	19	(31)
(c) Unrecognised tax losses		
Unused tax losses for which no deferred tax asset has been recognised	12,282	15,906
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	3,685	4,772

Notes to the Financial Statements

Note 5: Dividends on Members' Share Capital	2021 $'000	2020 $'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

	2021	2020
Payment date	-	13/12/2019
Dividend per share	-	$0.04
Per cent franked	-	50%
Paid in cash	-	78
Re-invested DFMC shares	-	57
Total ordinary dividends paid during the financial year	-	135

Franking credits

	2021	2020
b) Franking credits available for subsequent financial years	927	777

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

c) 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 2021 and therefore no interest was paid.

Note 6: Cash and cash equivalents	2021 $'000	2020 $'000
Cash and cash equivalents	958	5,122

Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 0.3% and 0.85% (2020: 1.85% and 2.75%).

Notes to the Financial Statements

Note 7: Receivables	2021 $'000	2020 $'000
Current		
Other receivables	279	300

2021	Gross Amount $	Past Due and Impaired $	Past Due but Not Impaired (Days Overdue) < 30 $	31-60 $	61-90 $	> 90 $	Within Initial Trade Terms $
Other receivables	279	-	-	-	-	-	279

2020	Gross Amount $	Past Due and Impaired $	Past Due but Not Impaired (Days Overdue) < 30 $	31-60 $	61-90 $	> 90 $	Within Initial Trade Terms $
Other receivables	300	-	-	-	-	-	300

Note 8: Other current assets	2021 $'000	2020 $'000
Prepayments	12	12
	12	12

Note 9: Financial assets

	2021 $'000	2020 $'000
Current		
Financial assets at amortised cost (term deposits)	2,819	1,000
Financial assets at Fair Value – shares in listed corporations	16,223	11,823

(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

Note 10: Deferred tax assets and liabilities	2021 $'000	2020 $'000
Deferred tax assets		
Accruals	12	34
Employee provisions	28	26
Carried forward tax losses	1,293	-
Total deferred tax assets	1,333	60
(a) Movements in deferred tax assets		
Balance at the beginning of the year	59	28
Opening balance adjustment	-	6
Credited to the income statement	(19)	26
Charge to equity	1,293	
Over in prior year	-	-
Balance at the end of the year	1,333	60
(b) Timing of recovery		
To be recovered		
Within 12 months	31	53
After 12 months	1,302	7
	1,333	60
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	1,293	293
Total deferred tax liabilities	1,293	293
(c) Movements in deferred tax liabilities		
Balance at the beginning of the year	293	821
Opening Balance Adjustment	99	(172)
Charged to equity	901	(356)
Balance at the end of the year	1,293	293
(d) Timing of settlement		
To be settled		
Within 12 months	1,293	293
	1,293	293
Total net deferred tax balances	40	(233)

Note 11: Right-of-use assets	2021 $'000	2020 $'000
Right-of-use assets – motor vehicles	68	68
Less: accumulated depreciation	(45)	(22)
	23	46

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

Notes to the Financial Statements

Note 12: Payables	2021 $'000	2020 $'000
Trade creditors and accruals	254	277

Note 13: Other liabilities	2021 $'000	2020 $'000
Deferred income	-	75

Note 14: Lease liabilities	2021 $'000	2020 $'000
Current		
Lease liabilities	23	22
Non-current		
Lease liabilities	1	24

The lease liabilities are in relation to motor vehicles leased by the Co-operative.

Note 15: Provisions	2021 $'000	2020 $'000
Current		
Employee benefits	56	64
Non-current		
Employee benefits	31	23
Balance at the beginning of the year	87	115
Charged to the statement of comprehensive income	50	46
Amounts used	(50)	(74)
Balance at the end of the year	87	87

Note 16: Members' Share Capital	Number of Shares 2021 #	Number of Shares 2020 #	Nominal Value 2021 $'000	Nominal Value 2020 $'000
Opening balance – shares of $1 each (fully paid)	3,142,911	3,444,582	3,143	3,445
Shares issued	500	170,365	1	170
Share levies (a)	31,885	66,955	32	67
Shares forfeited (b)	(484,163)	(538,992)	(484)	(539)
Closing balance – shares of $1 each (fully paid)	2,691,132	3,142,910	2,691	3,143
Balance at the end of the year	2,691,132	3,142,910	2,691	3,143

Notes to the Financial Statements

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.

	2021 $'000	2020 $'000
Note 17: Retained profits		
Balance at the beginning of the year	12,944	13,443
Profit /(Loss) attributable to members	(422)	(499)
Transfer of financial assets reserve to retained profits	490	-
Balance at the end of the year	13,012	12,944

Note 18: Commitments for expenditure

The Co-operative had nil commitments as at 30 June 2021.

Note 19: Contingent liabilities and Contingent assets

The Co-operative had no contingent liabilities or assets as at 30 June 2021.

Notes to the Financial Statements

Note 20: Financial assets reserve	2021 $'000	2020 $'000
The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value.	4,308	1,505

Note 21: Auditors' remuneration	2021 $	2020 $
Amount received, or due and receivable by Nexia Sydney Audit Pty Ltd for audit of the financial report	18,350	18,000
Amount received, or due and receivable for other services	21,000	21,000

Note 22: Key management personnel disclosures

(a) Directors

The directors of the Co-operative the date of the Directors' Report were:
Andrew Burnett (Chairman), James Geraghty, John McKillop, Sandy Rathjen, and Greg Ault.

The following directors resigned from their position as directors of the Co-operative during the financial year:
Adrian Dauk, Grant Sherborne, and Bernice Lumsden.

(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

Note 22: Key management personnel disclosures (continued)

(d) Key management personnel compensation	**2021**	**2020**
	$	**$**
Short-term employment benefits	**735,904**	777,563
Post-employment benefits (superannuation)	**69,911**	71,220
Total key management personnel compensation	**805,815**	848,783

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	132,402

(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& c))
- Other revenue derived from DFL (note 2 (d))

Notes to the Financial Statements

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).

	2021 $'000	2020 $'000
Note 25: Cash flow reconciliation		
Profit / (loss) attributable to members	(422)	(499)
Non-cash items in operating profit		
Other non-cash items	(11)	564
Dividend and farm rebate reinvestment	-	57
Movement in assets and liabilities		
(Increase) / decrease in prepayments	(1)	-
(Increase) / decrease in receivables	(27)	493
Increase / (decrease) in deferred tax liabilities	19	(560)
Increase / (decrease) in payables and accruals	(99)	(60)
Increase / (decrease) in provisions	1	(28)
Net cash inflow from operating activities	(540)	(33)

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

Note 26: Financial risk management (continued)

	Notes	2021 $'000	2020 $'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	958	5,122
Loans and receivables	7	279	300
Financial assets at amortised cost (term deposits)	9	2,819	1,000
Financial assets at fair value through OCI	9	16,223	11,823

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.

Notes to the Financial Statements

Note 26: Financial risk management (continued)

At 30 June 2021 the Co-operative's financial assets and liabilities are as follows:

	Note	2021	2020
		$'000	**$'000**
Financial assets			
Cash and cash equivalents	6	958	5,122
Loans and receivables	7	279	300
Financial assets at amortised cost (term deposits)	8	2819	1,000
Financial Assets at fair value through OCI:			
- listed investments	9	16,223	11,823
Total financial assets		20,279	18,245
Financial liabilities			
Financial liabilities at amortised cost:			
- trade and other payables	12	254	277
- lease liability	14	24	46
- members' share capital	16	2,691	3,143
Total financial liabilities		2,969	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

Note 26: Financial risk management (continued)

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities due for payment								
Trade and other payables	254	277	-	-	-	-	254	277
Lease liabilities	23	22	1	24	-	-	24	46
Members' share capital	-	-	-	-	2,691	3,143	2,691	3,143
Total contractual outflows	276	299	1	24	2,691	3,143	2,969	3,466
Total expected outflows	276	299	1	24	2,691	3,143	2,969	3,466
Financial assets — cash flows realisable								
Cash and cash equivalents	958	5,122	-	-	-	-	958	5,122
Financial assets at amortised cost	2,819	1,000	-	-	-	-	2,819	1,000
Trade, term and loan receivables	279	300	-	-	-	-	279	300
Financial assets at fair value through OCI	-	-	-	-	16,223	11,823	16,223	11,823
Total anticipated inflows	4,056	6,422	-	-	16,223	11,823	20,279	18,245
Net inflow on financial instruments	3,780	6,123	(1)	(24)	13,532	8,680	17,310	14,779

Notes to the Financial Statements

Note 26: Financial risk management (continued)

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

	2021 $'000	2020 $'000
Banks	3,943	2,922
Commercial services & supplies	319	304
Diversified financials	846	242
Energy	692	408
Food & drug retailing	565	545
Health care equipment & services	289	305
Insurance	202	166
Materials	1,919	1,282
Pharmaceuticals & Biotechnology	811	817
Real estate	62	44
Retailing	400	351
Telecommunication services	324	215
Transportation	742	710
Media and entertainment	1,039	-
Other	4,070	3,512
	16,223	11,823

Price risk

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

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

Sensitivity analysis

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

	Profit	Equity
Year ended 30 June 2021	**$'000**	**$'000**
+/- 2% in interest rates	+/- 93	+/- 93
+/-10% in listed investments	N/A	+/- 1,196
Year ended 30 June 2020		
+/- 2% in interest rates	+/- 127	+/- 127
+/-10% in listed investments	N/A	+/- 1,258

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

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.

		2021		2020	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	(i)	958	958	5,122	5,122
Financial assets at amortised cost	(i)	2,819	2,819	1,000	1,000
Trade and other receivables	(i)	279	279	300	300
		4,056	4,056	6,422	6,422
Financial asset at fair value through other comprehensive income:					
– Listed Investments		16,223	16,223	11,823	11,823
Total financial asset at fair value through other comprehensive income	(iii)	16,223	16,223	11,823	11,823
Total financial assets		20,279	20,279	18,245	18,245
Financial liabilities					
Trade and other payables	(i)	254	254	277	277
Lease liabilities	(iv)	24	24	46	46
Members' share capital	(iv)	2,691	2691	3,143	3,143
Total financial liabilities		2,969	2,969	3,466	3,466

Notes to the Financial Statements

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).

2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Financial assets			
Financial asset at fair value through other comprehensive income:			
▪ listed investments	16,223	-	-
	16,223	-	-

2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Financial assets			
Financial asset at fair value through other comprehensive income:			
▪ listed investments	11,823	-	-
	11,823	-	-

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

Notes to the Financial Statements

Note 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 8 to 32 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 2021 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.

Andrew Burnett
Chairman
4 November 2021

John McKillop
Independent Director
4 November 2021

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

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 2021, 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 2021 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 2021, 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.

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.

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 2021 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.

Nexia Sydney Audit Pty Ltd

Vishal Modi
Director

Dated: 4th day of November 2021