DAIRY FARMERS MILK CO-OPERATIVE ANNUAL REPORT 2013

YEAR ENDED 30 JUNE 2013
ABN 74 669 522 867

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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

John Macarthur-Stanham

DIRECTORS

John Bastian

Andrew Burnett

John Bywater

James Geraghty

Duncan McInnes

Trevor Middlebrook

Peter Ness – Resigned 26/6/13

Rick Gladigau – Appointed 26/6/13

Michael Roache

Scott Sieben

Ian Zandstra – Note that Mr Zandstra was Chairman for 2012/13 financial year

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Grant Thornton Audit Pty Ltd

SOLICITORS

Addisons Lawyers

EXECUTIVE OFFICER & SECRETARY

Greg Griffith

Facts at a glance

Highlights

• DFMC members received an 8% fully franked dividend on shareholding. Total payment equated to $647,179.	• DFMC had a continuing operating profit before income tax & dividend payments of $848,000. This is an increase of $89,000 from the year prior due to increased gains made on realised assets and other income which have been slightly offset by increased administration expenses and a reduction in interest earned from bank investments.
• DFMC continued to negotiate terms pursuant to the Milk Supply Agreement. Suppliers received a milk price in line with the market. Reflecting Lion's commercial needs, the volume of milk required at T1 prices decreased by approx. 78m litres or 14%.	• DFMC had a $237,000 realised gain from the sale of some shares from its investment portfolio. • DFMC had a net gain of $1,161 million or approx.17.5% total return on a 'Mark to Market' basis.

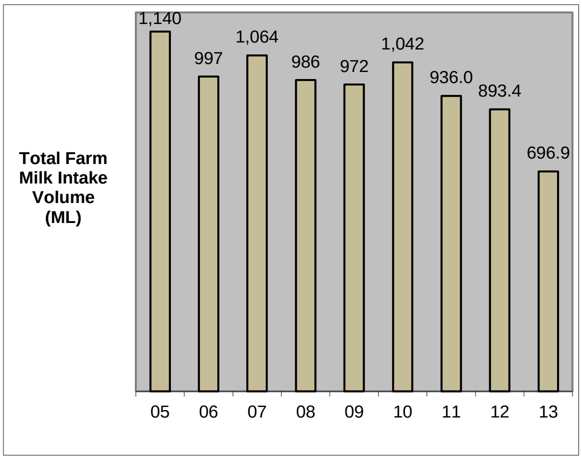
Metrics

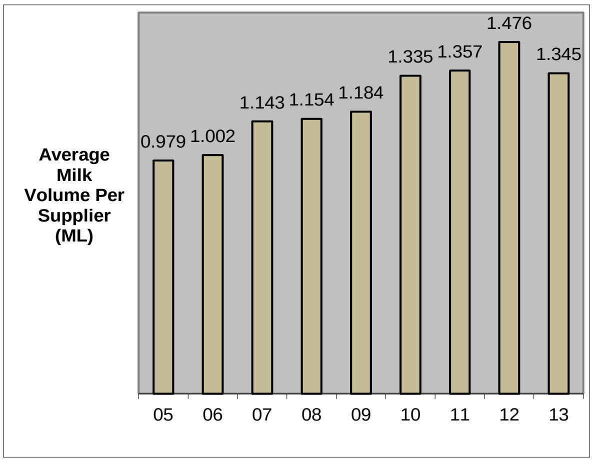
Financial Metrics	**2013**	**2012**
Performance and Returns		
Special dividends paid to members $'000 ($0.08 per share)	**647**	654
Special dividends – percentage franked	**100%**	0%
NPAT before dividends to members $'000	**848**	761
Dividends paid to members (1) $'000	**(647)**	(654)
Ex-member reinstatement declined		-
NPAT (1) $'000	**201**	107
Balance Sheet		
Net tangible assets (2) $'000	**22,005**	20,351
Milk Supply Metrics		
Total milk volumes – million litres	**697**	893
Number of suppliers at year end	**518**	605
Average milk volume per supplier – million litres	**1,345**	1,476
(Decrease)/Increase in milk price year-on-year	**(3.76)%**	(1.70)%
Suppliers under contract	**100%**	100%

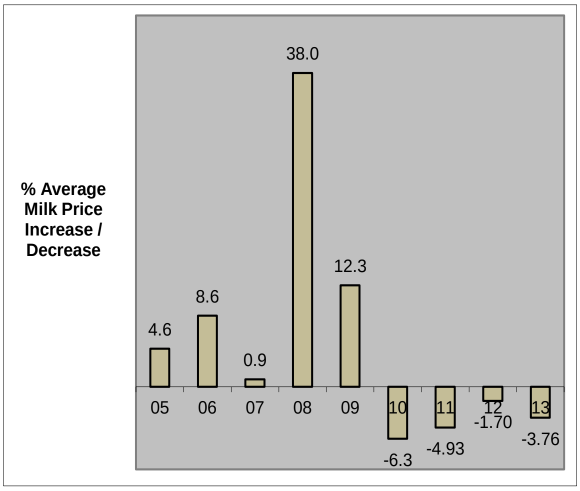
Notes

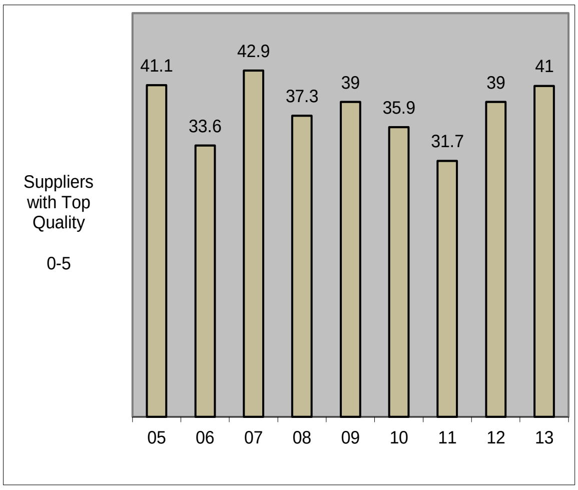
(1) Under Australian International Financial Reporting Standards ('AIFRS'), dividends paid to members on ordinary shares are included as finance costs within the income statement.

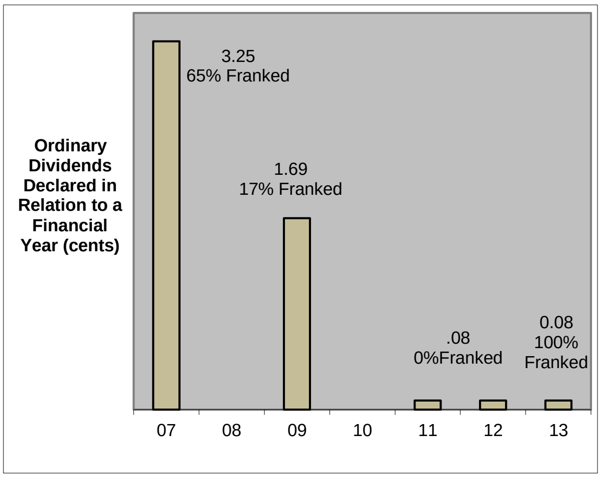
(2) Net tangible assets have been calculated by including members' share capital within equity.

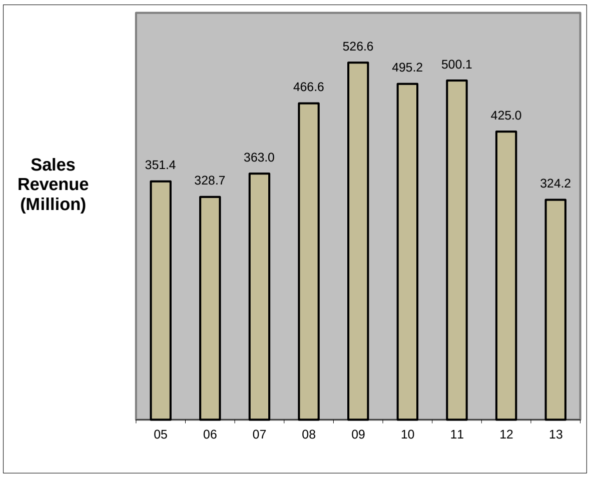

Total Farm Milk Intake Volume (ML)
1,140
997
1,064
986
972
1,042
936.0
893.4
696.9
05 06 07 08 09 10 11 12 13


Average Milk Volume Per Supplier (ML)
0.979
1.002
1.143
1.154
1.184
1.335
1.357
1.476
1.345
05 06 07 08 09 10 11 12 13


% Average Milk Price Increase / Decrease
4.6
8.6
0.9
38.0
12.3
-6.3
-4.93
-1.70
-3.76
05 06 07 08 09 10 11 12 13


Suppliers with Top Quality
0-5
41.1
33.6
42.9
37.3
39
35.9
31.7
39
41
05 06 07 08 09 10 11 12 13


Ordinary Dividends Declared in Relation to a Financial Year (cents)
3.25
65% Franked
1.69
17% Franked
.08
0%Franked
0.08
100%
Franked
07 08 09 10 11 12 13


Sales Revenue (Million)
351.4
328.7
363.0
466.6
526.6
495.2
500.1
425.0
324.2
05 06 07 08 09 10 11 12 13

Chairman's Report

DFMC and our farmers have had a challenging year. The market has been tough and from DFMC's perspective our market is Lion. For farmers a tough year as well; Southern prices were down on previous years and DFMC SEQ/NSW farm gate incomes were badly impacted by T2 pricing.

This has been one of those difficult years when we as farmers reflect and say "we got through it and let's look to the future". Farmers are resilient, certainly in spirit, yet we know of many episodes where farmers have had enough. For some, financial pressure has been relentless and personal pain has occurred. It was one of those tough years where we have to accept that things have impacted upon us as farmers that have been out of our control.

Milk Prices

2012/13 DFMC milk prices took a while to be resolved. Price negotiations with Lion stalled and for all Northern prices we had to go to Independent Expert (IE) determination. The result was a slight lift in FNQ and SEQ and a 2 cpl decrease in NSW.

Southern price was set by the formula to be ahead of, in general terms, a MG model farm. We opened at $5.12 and $5.20 in SA. These proved to be good competitive cash flow prices and two end of year step ups followed.

The initial message of T2 affected all regions, but all milk was all T1 in the South fairly immediately. In the regions of SEQ and NSW the base T2 price was 13 cpl, projected all year based on Regional Supply above AFD and the result was devastating for some farmers. All milk at T1 was eventually brought forward to December 2012 but the damage was done, in morale and income.

Contract trading was introduced and was well received as a market answer for some farmers who had lots of milk above contract or who wanted to grow. It was always going to be based on transparency about future, and especially short term, T2 prices and likely T2 volumes. The Lion messages to DFMC were commercially wayward and the market operated in uncertainty. The contract transfer market was suspended in April.

The Lion Relationship

Lion is our business partner and DFMC represent the suppliers to gain competitive milk prices, good supply terms through the Milk Policy and security of milk off take. We have an Milk Supply Agreement (MSA) and part of that is the supply management AFD concept. This gives Lion a lot of levers, but we have the security of supply and competitive price.

There have been some testing times, as relayed above we have had to go to IE in 2012/13 for price outcome. T2 has been a great impost; however this was not something DFMC could appeal to the IE on.

Lion has lost the Coles contract in Vic/NSW/SEQ from 2014/15.As a result Lion introduced a farmer classification model in NSW/SEQ which was designed to choose some farmers and shake off others. DFMC rejected this approach and what evolved was a DFMC milk price/ payment model increasingly based on distance and size, but overall increases in regional milk price to balance out those imposts. Interestingly, as DFMC predicted, Lion did not get the "chosen" farmers, as competition has finally entered these markets. Unfortunately this will be the first time ever in our Co-operative that farmers will be dispensable; some will not be offered contract of more than one year.

With this competition and Lions lesser milk needs DFMC is going to lose farmers, milk and scale.

Financial Performance

Strong movements in the local share market over the past 12 months have positively impacted the DFMC Portfolio. For the year ending June 30 2012 the portfolio achieved performance of 28.3% versus the All Ordinaries Index of 20.67%. Portfolio movement went from $7,994,644 as of July 1st 2012 to $10,185,938 as at June 30th 2013.

As conditions globally continue to slowly improve, particularly in the US and to a lesser extent Europe, our stock markets performance has been driven through investors' continued appetite for dividend yield (in light of decreasing interesting rates) with many large blue chip stocks that the portfolio holds continuing to outperform the market.

In recent times, to reflect some of the changing circumstances and challenges currently facing the DFMC, the board prudently decided to take advantage of the strong share market environment and reduce some exposure to the Australian Equities market by selling down approximately $2million exposure over the course of the last six months.

Moving forwards, while the global economy continues to improve, the majority of major economies still face some challenges, which is to be expected as they continue to recover from the Global Financial Crisis. Australian companies have continued to undertake strong cost cutting strategies to drive earnings growth. For sustainable improvement on the share market, companies need to start experiencing stronger revenue growth, which will only be driven by increasing consumer and business confidence. We believe this will be driven by a lower Australian dollar, low interest rates and continued improvement in the US, Europe and China.

Overall we are pleased with the performance of the portfolio as it has delivered strong results on a risk adjusted basis

The Seasons

It has been very testing across a large part of our very big supply area. South Australia and Western Victoria had the hardest time, an accumulation of a late and short spring, a hot dry and long summer and then a very late autumn break. That all adds up to a very difficult year and explains the financial pressure we are hearing of. Interest rates are at record lows but credit has tightened with these tight cash flow times.

With this came the nexus of a year of lower milk prices and higher input costs and an eventual shortage of fodder. These factors, increasing grain and hay prices affected all regions. Northern Victoria/Riverina had a very long hot dry summer with the highest irrigation water use for over a decade. It’s a good thing that the dams were full and filling again now. The same can be said for the western valleys of NSW.

Our east coast farmers had similar conditions; an extremely dry spell (driest six month spell ever in some areas) followed by heavy if not flooding rains in summer. Some areas of north coast NSW and SEQ were extremely hard hit with more than one flood. FNQ had a balanced, normal year weather wise, although it could be said all the above are a bit normal for this diverse country of ours.

Time’s Up

This will be my last Chairman’s Report. I was elected to the Dairy Farmers Board in 1998. By then the early phase for Dairy Farmers was over, the mergers and acquisitions were done. Dairy Farmers positioned itself ready for and into the post deregulated cauldron of farm gate pricing and tension, of retailer relationships, of processor wars in the market, of merger activity (for others and of DF) and for Restructure and eventual sale. It's hard for me to say if all that was a success or a failure; for Dairy Farmers as a complex and diverse co-operative, all the better for being out of that market space. In reality, and it is not hindsight on my part, Restructure was an exit strategy.

The outcome of the sale was a new MSA for DFMC, the major change being the regional commercial need concept, the Regional Anticipated Full Demand. This is a supply management model that was always going to present supply management challenges for DFMC and our farmers.

My ten and a half years as Chairman of DFMC have absorbed my life and if I had not wanted it that way I would not have done it for so long. Obviously I have enjoyed it, seen personal value and a contribution to our farmers and co-operative in doing so. I have to thank my wife Cheryl and family for persevering with me and my lifestyle throughout these years; obviously it has affected their lives as well, beyond what I was probably acknowledging. I could not have done it without Cheryl.

Appreciations

Firstly, the farmers, past and present. It has been a great pleasure to work for you. That is where my heart is. We are a service co-operative, here for the farmers; trust, voice, representation and negotiation above all else.

My fellow directors, it has been an honour to be the Chairman over this time. We are now in an era of transition. I wish the board all the best for the future; I have stalled my departure because there was always a new challenge on the horizon and maybe that one would be the last. In dairy that will never be the case, it was time for me to move on.

Our staff is our service engine, the people at the coalface with farmers, and I would like to thank Greg, Keiryn, Helen, Mal and Ron for their loyalty, work and good co-operative values over this time. I am sure that culture will continue.

I sincerely thank you all.

Ian Zandstra

Chairman

Dairy Farmers Milk Co-operative

Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2013.

DIRECTORS

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

- J G Macarthur-Stanham (Chairman)
- A D R Burnett
- J W Bywater
- J J Bastian
- J B Geraghty
- R T Gladigau (Appointed 26th June 2013)
- D A McInnes
- T J Middlebrook
- P C Ness (Departed 26th June 2013)
- M P Roache
- Scott D Sieben
- I H Zandstra

PRINCIPAL ACTIVITIES

DFMC is a Co-operative incorporated under the *Co-operatives Act 1992 (as amended)* and is domiciled in Australia.

The principal activities of the Co-operative during the course of the financial year were to dispose of milk acquired from members to Dairy Farmers Limited ('DFL') or other members for processing. There were no significant changes in the nature of DFMC's activities during the year.

REVIEW OF RESULTS AND OPERATIONS

Profit from continuing operations after income tax before member distributions $848,000 (2012: $761,000).

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

DIVIDENDS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes to the state of affairs during the FY 2012/13 financial year.

SUBSEQUENT EVENTS

Lion Dairy & Drink's loss of the Coles generic milk contract from the 1st July 2014 means DFMC will have a reduced allocation in those regions and will likely see a reduction in the number of suppliers. No other matters or circumstances apart from the above have arisen since the end of the financial year which significantly altered or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

FUTURE DEVELOPMENTS

The Co-operative expects to continue operating as an ongoing entity with a sustainable capital base and hence there are no likely developments in the Co-operatives operations.

ENVIRONMENTAL PERFORMANCE

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

DIRECTOR INFORMATION (Current)

Ian Zandstra – Chairman

Ian Zandstra was appointed as a director of the Co—operative on 2 April 2004 and as the Co-operative's Chairman on 30 June 2004. Mr Zandstra was also a director on the Australian Co-operative Foods (ACF) board from 1998 to 2004. Mr Zandstra holds a Bachelor of Arts.

Mr Zandstra and wife Cheryl have two share farming dairy operations.

Andrew Burnett

Andrew Burnett joined the board of the Co-operative on 23rd November 2011. Mr Burnett farms at Gympie South East Queensland with wife Fiona and two sons Matthew and Samuel. The dairy business produces approximately 2.3 million litres from 350 cows. Mr Burnett has an Associate Diploma in Applied Science and previously worked in the cotton industry. He has completed the Rabo Executive Development Programme for Primary Producers.

John Bastian

John Bastian joined the Co-operative's board on 30 September 2004 and brings to the Co-operative extensive experience in commercial and management consulting including being the Business Review Weekly's Business Leader of the Year in 1990.

From 1983 to 1998 Mr Bastian held senior positions with Sola Optical, a company started in Adelaide and which became a major world player in the spectacle lens market.

He was responsible for a major manufacturing plant in Adelaide and extensive international markets. The Company was acquired by private equity and management in 1993 and listed on the New York stock exchange in 1995.

Since 1998 Mr Bastian has been a professional company director in a variety of agribusinesses including grains, wine, wine grapes, meat and agricultural engineering. He has a degree in Business Administration from the University of South Australia.

Duncan McInnes

Duncan McInnes was appointed to the Co-operative's board on 2 April 2004. Mr McInnes has been a director of a number of dairy Co-operative boards since 1982 as well as involvement with other local community based organisations Mr McInnes was also a director of ACF from 1996 until the end of November, 2008. He has previously served as District Secretary and Councillor with the Queensland DairyFarmers' Organisation for ten years.

With more than 40 years' experience as a dairy farmer, having originally purchased his dairy farm at age 19, Mr McInnes, in partnership with his two brothers, has increased milk production from 100,000 litres in 1980 to more than 4 million litres in 2012 from two farms.

Duncan is currently also a Councillor of the Royal National Association (Brisbane EKKA) and in April 2012 was elected as a councillor on the Scenic Rim Regional Council.

James Geraghty

James Geraghty was appointed as a director of the Co-operative in November 2009. Mr Geraghty is a third generation dairy farmer from Millaa Millaa on the Atherton Tablelands in Far North Queensland. Mr Geraghty has been a District Councillor with Queensland Dairy farmers Organisation since 1996 and a State Councillor since 2000.

His dairy farm milks about 250 cows year round in a climate that delivers an average rainfall of 3.5 metres a year. He and his family have been on their current farm since 1981.

Rick Gladigau

Richard Gladigau joined the Co-operative board on the 26th June 2013. Mr Gladigau was a ward rep for DFMC from 1997- 2013 and the SA Ward rep working group chairman for 3 years. Richard and wife Tania have a dairy farm near Mt Torrens.

Mr Gladigau is currently on the board of SADA and involved in local Land management organisations.

Peter Ness

Peter Ness was appointed as a Director of the Co-operative on the 30th September 2004. Mr Ness farms at Mt. Compass, South Australia, in partnership with his wife Wendy, and has been involved in the dairy industry for over 40 years.

Mr Ness is currently President of Jersey Australia and a Vice President of the World Jersey Cattle Bureau He is also passionate member and supporter of the Adelaide Crows.

John Macarthur-Stanham

John Macarthur-Stanham joined the Cooperative's board on 16 November 2005. He has qualifications in Bachelor of Economics (Sydney), MBA (AGSM).

Mr Macarthur-Stanham operates a dairy farm near Camden, New South Wales, producing around 2 million litres per year. He has had business experience in the fields of marketing, finance and corporate development with two major Australian companies and has served as a director of several substantial entities including CSR's Aluminium and Refined Sugar subsidiary companies. He was previously a director of Gosford Quarry Holdings.

Mr Macarthur-Stanham is also a director of Trust Company of Australia, a listed company where he is Vice Chairman and a member of the Audit Committee. Mr Macarthur Stanham was appointed to the Board of the Sydney Catchment Authority in late 2012.

Trevor Middlebrook

Trevor Middlebrook was appointed to the Co-operative's board on 26 April 2005. Mr Middlebrook is a third generation farmer at Gloucester, New South Wales. His dairy farm is currently milking over 420 cows producing over 3.5 million litres per year.

Mr Middlebrook holds a Diploma of Agriculture (TOCAL) and he sits on the Mid North Coast Dairy Advance group.

Michael Roache

Michael Roache was appointed to the Co-operative's board on 29 November 2007. Mr Roache is a third generation dairy farmer at Nalangil, Victoria, where he and his family currently run the oldest original dairy farm in the district. The business was purchased from his father in 1979, then milking 130 cows and producing 400,000 litres per year. It has now grown to 550 cows and produces above 4 million litres per year.

Mr Roache has over 40 years of hands on experience in dairy farming and the broader industry. He is married to his wife, Loretta, and they have 3 children with strong interests in dairy farming, who currently work in the food and beverage, finance and international business sectors.

Scott Sieben

Scott Sieben was elected to the DFMC board in 2011, after a six year position of Ward Representative. Additionally Mr Sieben was appointed as a member of the Audit & Finance and Milk Policy Committees.

Mr Sieben is a member of the Australian Institute of Company Directors. Mr Sieben and wife Jade and two children Lincoln and Georgia farm in Northern Victoria on the Murray River milking 250 cows off 250 hectares.

John Bywater

John Bywater joined the board of the Co-operative on 23rd November 2011. Mr Bywater spent the last 20 years in a variety of supply management roles within the Dairy Industry. Following the sale of Dairy Farmers to National Foods in 2008, he worked for a year in a transition role with National Foods. His most recent role in Dairy Farmers before the sale was General Manager, Sourcing & Farm Services at which time he was responsible for the sourcing of all of the major inputs to the business – milk, ingredients, packaging, vehicles, etc.

Prior to his time working within the various Co-operatives that went on to be part of Dairy Farmers, Mr Bywater worked for the Qld Department of Primary Industries as a Husbandry Officer and Regional Manager. He holds a Bachelor of Business (Rural Management) from UQ (with Honours) and a Post Graduate Diploma in Information Processing from USQ.

COMPANY SECRETARY

Mr Gregory Griffith is the Co-operative's Company Secretary and was appointed to this position on 26 May 2009, after his engagement as DFMC Executive Officer. Mr Griffith previously held the position of Chief Executive Officer of Destination Melbourne and the Executive Manager of Marketing at the Victorian Farmers Federation.

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

Other than the proceedings by former members, no person has applied for leave of court to bring proceedings on behalf of the Co-operative or intervene in any proceedings to which the Co-operative is a party for the purpose of taking responsibility on behalf of the Co-operative for all or any part of those proceedings.

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

ROUNDING OF AMOUNTS

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

MEETINGS OF DIRECTORS

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

	Board Meetings		Audit, Finance and Governance		Member Services and Milk Supply		Ward and Farmer Development	
	A	B	A	B	A	B	A	B
Ian H Zandstra	11	12						
John J Bastian	12	12	5	5				
Andrew D R Burnett	12	12			5	5	4	4
John W Bywater	12	12	5	5				
James B Geraghty	12	12			5	5	4	4
John G Macarthur-Stanham	12	12	5	5				
Duncan A M^c^Innes	11	12	5	5				
Trevor J Middlebrook	12	12			5	5	4	4
Peter C Ness	9	12			4	5	3	4
Michael P Roache	9	12			5	5	4	4
Scott D Sieben	12	12	5	5			4	4
Ian H Zandstra	11	12						
John J Bastian	12	12	5	5				

Column A – The number of meetings attended.

Column B – Indicates the number of meetings the directors were eligible to attend.

In addition to formal board and committee meetings, the directors attended numerous other sub-committee and informal meetings relating to milk price negotiations, the development of DFMC's new supply model, monitoring DFMC's investments, industry meetings, corporate governance and communications meetings including ward meetings. The chairman of the board attends committee meetings by invitation.

AUDITORS' INDEPENDENCE DECLARATION

The lead auditors' independence declaration for the year ended 30 June 2013 as required by section 307C of the *Corporations Act 2001* is set out on page number 10.

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

J Macarthur-Stanham

Chairman

J Bywater

Director

Sydney, 30 September 2013

Add Photo

Directors, left to right: Michael Roache, Rick Gladigau, Scott Sieben, Ian Zandstra (Chairman), John Macarthur-Stanham, Trevor Middlebrook, James Geraghty, John Bastian, Andrew Burnett, and John Bywater. Note that Director Duncan McInnes was not in attendance.

AUDITORS' INDEPENDENCE DECLARATION

Still to Come

Corporate Governance

THE BOARD OF DIRECTORS

Board composition

The board comprises 11 directors being 9 farmer directors and two independent directors.

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

Board responsibilities

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

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

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

AUDIT, FINANCE AND GOVERNANCE COMMITTEE

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

John Bywater (Chair)

John Bastian

John Macarthur-Stanham

Duncan McInnes

Scott Sieben

Access and reporting

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

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

Responsibilities

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

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

External Audit Appointment and Supervision

(a) Appointment: The committee nominates the external auditor to the board for appointment by members.

(b) Independence: The Co-operative will not invite any ex-audit partners to be appointed as directors.

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

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

MEMBER SERVICES AND MILK SUPPLY COMMITTEE

The committee is comprised of five 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:

James Geraghty (Chair)

Andrew Burnett

Peter Ness

Michael Roache

Trevor Middlebrook

Responsibilities

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

Communication with Members

The Co-operative ensures that 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.
- The *Chairman's Report* which is circulated to all members.
- DFMC Website www.dfmc.org.au

WARD AND FARMER DEVELOPMENT COMMITTEE

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

Andrew Burnett (Chair)

Trevor Middlebrook

Peter Ness (retired 26th June 2013)

Michael Roache

James Geraghty

Responsibilities

The role of the committee is to consider issues relating to the development and accountability of the Ward Representative System and also create a program that encourages personal development amongst DFMC members.

Ward Development

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

- Ward meetings with farmer members throughout the Co-operative's supply regions.
- Supplier related issues including milk quality, milk supply, farming practices and market trends
- Access and understanding of operations with key stakeholders.
- Coordinating regional meetings with farmer members through the Co-operative's supply regions.

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 a Working Group of Ward Reps.
- Elections and working closely with the Chairs of the Working Groups.
- Development Director training and personal development of Working Groups Chairs.

MILK PRICE AND AFD NEGOTIATION COMMITTEE

The committee is comprised of four directors appointed by the board, and is chaired by the chairman of the board.

Composition

The committee currently comprises:

Ian Zandstra (Chair)

John Bywater

John Macarthur-Stanham

Duncan McInnes

Access

The committee maintains details records on competitive milk pricing , utilises pricing spreadsheets and engages in negotiations with Lion executives to establish the milk price and 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 Board and our members the base milk price and regional AFD for the coming financial year. The committee reports back 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 Lion 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 2013	Notes	2013 $'000	2012 $'000
Sales revenue	2	**324,234**	420,733
Cost of sales		**(324,234)**	(420,733)
Gross profit		**-**	-
Aggregation fee revenue	2	**1,100**	1,100
Operation fee revenue	2	**225**	225
Administration expenses		**(1,836)**	(1,714)
Net administration result		**(511)**	(389)
Investment revenue			
Dividend revenue – Equities	2	**440**	408
Interest revenue	2	**653**	806
Finance costs			
Financial institution and others	3	**(45)**	(42)
Other income			
Realised gains on financial assets	2	**237**	25
Other Income	2	**127**	-
Net investment and financing result		**1,412**	1,197
Profit from continuing operations before income tax		**901**	808
Income tax expense	4	(53)	(47)
Profit from continuing operations after income tax before member distributions		**848**	761
Members' dividends payments* - ordinary	5	**(647)**	(654)
Profit for the year	15	**201**	107
Net gain/(loss) on revaluation of financial assets net of tax	24	**1,161**	(495)
Total comprehensive income for the year attributable to members of the co-operative		**1,362**	(388)

* Note that in accordance with AIFRS, dividends payable to members on their ordinary shares are included as finance costs within the income statement. Accordingly, the profit attributable to members of the Co-operative is presented after deducting such finance costs. Refer to notes 1(K), 5 and 14.

The above income statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2013	Notes	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	6	**14,007**	13,802
Receivables	7	**271**	344
Other current assets	8	**13**	11
Total current assets		**14,291**	14,157
Non-current assets			
Financial assets	9	**9,085**	7,992
Receivables	7	**251**	-
Property, plant and equipment	10	**-**	-
Deferred tax assets	11	**110**	658
Total non-current assets		**9,446**	8,560
Total assets		**23,737**	22,822
Current liabilities			
Payables	12	**1,537**	1,712
Provisions	13	**71**	41
Total current liabilities		**1,608**	1,753
Non-current liabilities			
Provisions	13	**16**	15
Members' share capital*	14	**7,917**	8,205
Total non-current liabilities		**7,933**	8,220
Total liabilities		**9,541**	9,973
Net assets		**14,196**	12,834
Equity			
Retained profits	15	**13,618**	13,417
Reserves	18	**578**	(583)
Total equity		**14,196**	12,834

* 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(i), 5 and 14.

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2013

	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2011*	13,310	(88)	**13,222**
Profit attributable to the co-operative	107	-	**107**
Total other comprehensive income for the year	-	(495)	**(495)**
Balance at 30 June 2012*	13,417	(583)	**12,834**
Profit attributable to the co-operative	201	-	**201**
Total other comprehensive income for the year	-	1,161	**1,161**
Balance at 30 June 2013*	13,618	**578**	**14,196**

* 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(i), 5 and 14.

Statement of Cash Flows

For the year ended 30 June 2013	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers		**325,660**	422,046
Payments to suppliers, employees and directors		**(326,308)**	(421,903)
Dividends received		**384**	408
Interest received		**645**	806
Dividends paid - ordinary shares		**(647)**	(654)
Net operating cash flows	23	**(266)**	703
Cash flows from investing activities			
Payment for investment in equities		**(434)**	(410)
Proceeds from sale of investments		**1,445**	220
Loans to related entities		**(251)**	-
Net investing cash flows		**760**	(190)
Cash flows from financing activities			
Share subscriptions received		**585**	**-**
Proceeds from issue of ordinary shares		**-**	12
Repayment of share forfeit loans		**(874)**	(1,125)
Net financing cash flows		**(289)**	(1,113)
Net (decrease) in cash		**205**	(600)
Cash at the beginning of the financial year		**13,802**	14,402
Cash at the end of the year	6	**14,007**	13,802

The above cash flow statement 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, Urgent Issues Group Interpretations, the Co-operatives Act 1992 (as amended) and the applicable sections of the Corporations Act 2001.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Co-operative's financial statements and notes comply with International Financial Reporting Standards (IFRS).

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.

(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) Property, plant and equipment (note 10)

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Co-operative and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive income when incurred.

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives of 3-4 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(e)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(e) 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) 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.

(g) 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.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefits (note 13)

(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 amounts expected to be paid when the liabilities are settled.

(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.

(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.

(i) Members' share capital (note 14)

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.

(j) Revenue recognition (note 2)

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Co-operative's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

A sale is recorded when the goods have been delivered to and accepted by the customer or its agent and collectability of the related receivable is probable.

(ii) Aggregation fee revenue

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

(iii) Dividends

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

(iv) Interest revenue

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

(k) 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.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (notes 4, 11)

The income tax expense or revenue for the year is the tax payable on the current year's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(m) Reporting period

The financial report has been prepared for the financial year ended 30 June 2013.

(n) Foreign currency translation

The financial statements are presented in Australian dollars, which is the Co-operative's functional and presentation currency.

(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

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

(r) New accounting standards

1. Changes in accounting policies

1.1 Overall Adoption of improvements to AASBs 2010 – AASB 2010-4 and 2010-52

The AASB has issued AASB 1054 *Australian Additional Disclosures* and 2011-11 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Conveyance Project* and made several minor amendments to a number of AASBs. These standards eliminate a large portion of the differences between the Australian and New Zealand accounting standards and IFRS and retain only additional disclosures considered necessary. These changes also simplify some current disclosures for Australian entities and remove others.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below4.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 9 *Financial Instruments* (effective from 1 January 2013)

The AASB aims to replace AASB 139 *Financial Instruments: Recognition and Measurement* in its entirety.
The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

AASB 13 Fair Value Measurements (AASB 13)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income s (AASB 101 Amendments).

The AASB 101 amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other AASBs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments:

Disclosures 6

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities. Qualitative and quantitative disclosures have been added to IFRS 7 relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are applicable for annual periods beginning on or after 1 January 2014. The Group's management have yet to assess the impact of these amendments.

(s) Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (i) the amount at which the financial asset or financial liability is measured at initial recognition, (ii) less principal repayments, (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and (iv) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Co-operative does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

I. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.
Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

II. Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

III. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Co-operative's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets. If during the period, the Co-operative sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire category of held-to-maturity investments would be tainted and would be reclassified as available-for-sale.

IV. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.
Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

V. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derecognition

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

(t) Significant judgements in applying accounting policies

(i) Recovery of deferred tax assets

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

(ii) Valuation of investments

The Co-operative Board has decided to classify investments in listed securities as 'available for sale' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Notes to the Financial Statements

NOTE 2: REVENUE AND OTHER INCOME	2013 $'000	2012 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	**324,234**	420,733
	324,234	420,733
Other administration and investment revenue		
Aggregation fee revenue (b)	**1,100**	1,100
Operation fee revenue	**225**	225
Dividend revenue – Equities	**440**	408
Interest revenue – financial institutions and other	**653**	806
	2,418	2,539
Total revenue from continuing operations	**326,652**	423,272
Other income		
Realised gains on financial assets	**237**	25
Other Income	**127**	-

(a) Sale of goods to DFL

DFMC and DFL have entered into a ten year rolling Milk Supply Agreement, which presently expires in June 2019, so that DFMC can secure a long term dependable outlet for milk at a commercial price. Prior to the implementation of the 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.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, while DFMC derives at least 90% of its revenues from DFL, DFL must pay the Aggregation Fee to DFMC to cover the expenses incurred by DFMC in connection with the consolidation or aggregation of the milk supply for on sale to DFL. The Aggregation Fee for the year ended 30 June 2013 was agreed at $1.1 million (2012: $1.1 million).

NOTE 3: EXPENSES

Profit before income tax includes the following specific expenses

	2013 $'000	2012 $'000
Finance costs		
Members' share capital payments (Note 5)		
Special dividends	**647**	654
Ex-member reinstatement declined	**-**	-
Financial institutions and others	**45**	42
	692	696

Notes to the Financial Statements

	2013 $'000	2012 $'000
NOTE 3: EXPENSES (continued)		
Profit before income tax includes the following specific expenses (continued)		
Depreciation – plant and equipment	**-**	1
Employee and director benefits expense	**658**	665
Defined contribution superannuation expense	**59**	61

NOTE 4: INCOME TAX

(a) Income tax expense reconciliation

	2013 $'000	2012 $'000
Profit before income tax	**254**	154
Income tax expense calculated at 30% (2012: 30%)	**76**	46
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	**194**	-
Other non-deductible expenditure	**4**	
Franked dividend revenue	**(82)**	-
	192	46
Recognition of prior period tax losses not recognised in prior years	**(195)**	**-**
Current period tax losses not recognised	**-**	**11**
Under provide in prior years	**56**	**(10)**
Income tax expense/(benefit)	**53**	47
Average effective tax rate	**(20.87%)**	(30.52%)

(b) Income tax expense analysis

	2013 $'000	2012 $'000
Deferred tax		
Changes in deferred tax assets (Note 11)	**17**	46
Changes in deferred tax liabilities (Note 11)	**36**	1
	53	47
Current tax	**-**	-
Income tax expense/(benefit)	**53**	47

(c) Unrecognised tax losses

	2013 $'000	2012 $'000
Unused tax losses for which no deferred tax asset has been recognised	**14,098**	13,928
Unused capital tax losses for which no deferred tax asset has been recognised	**-**	-
Potential tax benefit at 30%	**4,230**	4,178

Notes to the Financial Statements

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 finance costs within the income statement. The amount of these 'dividends' on ordinary shares are disclosed in note 3 and as follows:

	2013	2012
(a) Dividends		
(i) Special dividends – recognised and paid during the financial year		
Payment date	**16/11/2012**	06/12/2011
Dividend per share	**$0.08**	$0.08
Per cent franked	**100%**	0%
Paid in cash	**647**	654
Total ordinary dividends paid during the financial year	**647**	654

(b) Franking credits

Franking credits available for subsequent financial years	**581**	463

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

(c) Interest payable at dividend rate

In addition to the above, and prior to implementation of the ACF Scheme, interest was payable on share forfeit loans at the rate of ordinary dividend payable on ordinary shares, as disclosed in note 1k(i). No interest has been paid on share forfeit loans during the financial year ended 30 June 2013 or the previous financial year.

NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents	**14,007**	13,802

Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 4.05% and 4.49% (2012: 5.73% and 5.90%).

NOTE 7: RECEIVABLES

Current		
Other receivables	**69**	344
Amounts receivable from related parties	**102**	-
	271	344

Notes to the Financial Statements

NOTE 7: RECEIVABLES (continued)

2013	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	171	-	-	-	-	-	171

2012	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	344	-	-	-	-	-	344

	2013 $'000	2012 $'000
Non-Current		
Receivable from ADFC	**251**	-

NOTE 8: OTHER CURRENT ASSETS

Prepayments	**13**	11

NOTE 9: FINANCIAL ASSETS

Available for sale financial assets – shares in listed corporations	**9,085**	7,992

(a) Investment in equities

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth to invest $8.5 million in the Australian equities market. For the year ended 30 June 2013, withdrawal of $(0.10) m was transferred to ANZ Bank account. There are no fixed returns or fixed maturity dates attached to these investments.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
At cost	**30**	30
Accumulated depreciation	**(30)**	(30)
	-	-

(a) Movement reconciliation

Carrying amount at the beginning of the year	**-**	1
Additions	**-**	-
Disposals	**-**	-
Depreciation	**-**	(1)
Carrying amount at the end of the year	**-**	-

Notes to the Financial Statements

NOTE 11: DEFERRED TAX ASSETS & LIABILITIES

	2013 $'000	2012 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	**348**	345
Consulting and advisory costs	**34**	61
Employee provisions	**27**	17
Mark-to-market available for sale financial asset	**-**	250
Total deferred tax assets	**409**	673

(a) Movements in deferred tax assets

	2013 $'000	2012 $'000
Balance at the beginning of the year	**673**	564
Credited to the income statement	**41**	(47)
Credited to equity	**(250)**	166
(Under)/Over in prior year	**(55)**	(10)
Tax losses derecognised during the current year	**-**	-
Balance at the end of the year	**409**	673

(b) Timing of recovery

	2013 $'000	2012 $'000
To be recovered		
Within 12 months	**389**	612
After 12 months	**20**	61
	409	673

	2013 $'000	2012 $'000
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	**248**	-
Unearned revenue	**51**	15
Total deferred tax liabilities	**299**	15

(c) Movements in deferred tax liabilities

	2013 $'000	2012 $'000
Balance at the beginning of the year	**15**	14
Charged to the income statement	**37**	1
Charged to equity	**247**	-
Balance at the end of the year	**299**	15

(d) Timing of settlement

	2013 $'000	2012 $'000
To be settled		
Within 12 months	**299**	156
	299	156
Total net deferred tax balances	**110**	658

NOTE 12: PAYABLES

	2013 $'000	2012 $'000
Trade creditors and accruals	**1,537**	1,712

Notes to the Financial Statements

NOTE 13: PROVISIONS	2013 $'000	2012 $'000
Current		
Employee benefits	**71**	41
Non-current		
Employee benefits	**16**	15

Balance at the beginning of the year	**56**	44
Charged to the statement of comprehensive income	**34**	27
Amounts used	**(3)**	(15)
Balance at the end of the year	**87**	56

NOTE 14: MEMBERS' SHARE CAPITAL

	Number of Shares		Nominal Value	
	2013 #	2012 #	2013 $'000	2012 $'000
Opening balance – shares of $1 each (fully paid)	**8,205,176**	9,009,452	**8,205**	9,009
Shares issued	**8,971**	12,000	**9**	12
Share levies (a)	**576,839**	309,208	**577**	309
Shares forfeited (b)	**(873,951)**	(1,125,484)	**(874)**	(1,125)
Closing balance – shares of $1 each (fully paid)	**7,917,035**	8,205,176	**7,917**	8,205
Unallocated members' contribution (c)			**-**	-
Balance at the end of the year	**7,917,035**	8,205,176	**7,917**	8,205

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 Act 1992 (as amended) 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.

Notes to the Financial Statements

NOTE 14: MEMBERS' SHARE CAPITAL (continued)

(b) Shares forfeited

Under the Co-operatives Act 1992 (as amended) 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) Unallocated members' contributions

Unallocated members' contributions represent milk payment deductions and other cash received from members which had not been allocated as shares.

(d) 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 (currently suspended) or may guarantee capital through deductions from payments to members of milk supplies under the terms of its share acquisition program (currently suspended).

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

NOTE 15: RETAINED PROFITS	**2013 $'000**	**2012 $'000**
Balance at the beginning of the year	**13,417**	13,310
Profit/(Loss) attributable to members	**201**	107
Balance at the end of the year	**13,618**	13,417

NOTE 16: COMMITMENTS FOR EXPENDITURE

The Co-operative had $nil commitments at the end of the financial year (2012: $nil).

NOTE 17: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Co-operative does not have any contingent liabilities or assets as at 30 June 2013 (2012: no contingent liabilities)

NOTE 18: RESERVES

Financial assets reserve

The financial assets reserve records revaluation increments and decrements (that do not represent impairment write-downs) that relate to financial assets that are classified as available-for-sale. The balance as at 30 June 2013 was $578k (2012: ($583k)).

Notes to the Financial Statements

	2013 $	2012 $
NOTE 19: AUDITORS' REMUNERATION		
Amount received, or due and receivable by Grant Thornton for audit of the financial report	**15,000**	13,800
Amount received, or due and receivable by Grant Thornton for other services	**69,387**	8,000

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of the Co-operative during the year and up to the date of the Directors' Report were:

J J Bastian, A D R Burnett, J W Bywater, J G Macarthur-Stanham (Deputy Chairman), J B Geraghty, D A M^c^Innes, T J Middlebrook, P C Ness, M P Roache, S D Sieben, Rick T Gladigau and I H Zandstra (Chairman).

(b) Executive Officer

DFMC appointed an Executive Officer in February 2009. The compensation of the Executive Officer is included within the key management personnel compensation disclosed in note 20(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 of $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 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Key management personnel compensation	**2013**	**2012**
	$	**$**
Short-term employment benefits	**657,607**	665,348
Post-employment benefits (superannuation)	**58,905**	60,762
Total key management personnel compensation	**716,512**	726,110

The compensation noted above comprises the following per annum fixed directors' fees (inclusive of superannuation), which applied throughout all of the current and previous financial years with the exception of the sub-committee chairperson's fees as described in note 20(c). The compensation noted above also includes the Executive Officer.

Director fees for the current financial year are:

	Number of Directors	**Per Annum Fee**
		$
Chairman	1	85,000
Other directors	10	420,000

(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 (both currently suspended)
- 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

b. 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 engagement of services of John Bywater outside of director duties to the value of $10,000 in the preparation of documentation relating to independent industry analysis

Other than as noted above and in (a) in relation to farmer directors, there were no other transactions with any director or their director related entities during the current or the previous financial year other than re-imbursement of out-of-pocket business expenses and various minor business related fringe benefits.

NOTE 21: 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)
- Aggregation fee revenue derived from DFL (note 2)
- Operation fee to DFL

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $100,000 (2012: $100,000) to DFL during the financial year to cover the cost of providing administrative facilities and services including offices, communication services, computer hardware and systems, and accounting and secretarial services.

DFMC and Australian Dairy Farmers Co-operative (ADFC) are related parties for the purposes of Competition and Consumer Act and have directors in common. DFMC and ADFC have entered into a Management Service Agreement to which DFMC has agreed to provide all management services to ADFC. In addition, DFMC has provided ADFC with a Loan of $250,000 payable by agreement by 2019. A further $107,000 is outstanding from ADFC in relation to legal fee reimbursement.

Notes to the Financial Statements

NOTE 22: FINANCIAL FACILITIES

The Co-operative currently operates without the need for bank finance facilities. A fixed amount of annual funding is made available to DFMC to cover its administrative costs through the aggregation fee revenue from DFL as indicated in note 2(b).

NOTE 23: CASH FLOW RECONCILIATION

	2013 $'000	2012 $'000
Profit attributable to members	**201**	107
Non cash items in operating profit		
Depreciation expense	**-**	1
Realised income	**(237)**	-
Interest on share portfolio	**(8)**	-
Deferred Tax Liability recognised in reserve	**(235)**	-
Fund management fees	**50**	43
Share levy	**-**	309
Movement in assets and liabilities		
Increase in other assets	**(1)**	(1)
Decrease in FITB	**265**	-
Decrease in deferred tax	**22**	47
(Decrease)/increase in payables and accruals	**(175)**	247
Increase in receivables	**(180)**	(62)
Increase in employee provisions	**32**	12
Net cash inflow/(outflow) from operating activities	**(266)**	703

Shares forfeited during the year totalling $0.874 million (2012: $1.125 million) were transferred paid from members' share capital.

NOTE 24: 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.

Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

At 30 June 2013 the Co-operative's financial assets and liabilities are as follows:

	Note	2013	2012
		$'000	**$'000**
Financial assets			
Cash and cash equivalents	6	**14,007**	13,802
Loans and receivables	7	**273**	344
Available-for-sale financial assets:			
— at fair value:			
– listed investments	9	**9,085**	7,992
Total financial assets		**23,366**	22,138
Financial liabilities			
Financial liabilities at amortised cost:			
— trade and other payables	12	**1,537**	1,712
Total financial liabilities		**1,537**	1,712

Liquidity risk

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

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

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year-end could become repayable within 12 months.

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 24: FINANCIAL RISK MANAGEMENT (continued)

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities due for payment								
Trade and other payables (excluding est. annual leave)	**1,537**	1,712	-	-	-	-	**1,537**	1,712
Total contractual outflows	**1,537**	1,712	-	-	-	-	**1,537**	1,712
Less bank overdrafts	-	-	-	-	-	-	-	-
Total expected outflows	**1,537**	1,712	-	-	-	-	**1,537**	1,712
Financial assets — cash flows realisable								
Cash and cash equivalents	**14,007**	13,802	-	-	-	-	**14,007**	13,802
Trade, term and loan receivables	**273**	344	**251**	-	-	-	**524**	344
Other investments	-	-	-	-	**9,085**	7,992	**9,085**	7,992
Total anticipated inflows	**14,280**	14,146	**251**	-	**9,085**	7,992	**23,616**	22,138
Net (outflow)/inflow on financial instruments	**12,743**	12,434	**251**	-	**9,085**	7,992	**22,079**	20,426

Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

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

	Note	2013 $'000	2012 $'000
Banks		**1,859**	2,042
Commercial services & supplies		**489**	331
Diversified financials		**992**	944
Energy		**678**	515
Food & drug retailing		**832**	741
Health care equipment & services		**193**	471
Insurance		**497**	445
Materials		**866**	888
Pharmaceuticals & Biotechnology		**366**	304
Real estate		**372**	403
Software & services		**275**	140
Telecommunication services		**321**	248
Transportation		**244**	110
Utilities		**-**	278
Cash Management Account		**1,101**	132
	9	**9,085**	7,992

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 2013	**$**	**$**
+/- 2% in interest rates	**+/- 262**	+/- 262
+/-10% in listed investments	**N/A**	+/- 965
Year ended 30 June 2012		
+/- 2% in interest rates	**+/- 276**	+/- 276
+/-10% in listed investments	**N/A**	+/- 796

As investments are classified as available for sale assets unless there is impairment any movement in fair value would be recorded in reserves, therefore no impact on profits projected.

NOTE 24: 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 (ie trade receivables & loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the company.

		2013		2012	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	Footnote	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	(i)	**14,007**	**14,007**	13,802	13,802
Trade and other receivables	(i)	**524**	**524**	344	344
		14,531	**14,531**	14,146	14,146
Available-for-sale financial assets:					
– at fair value:					
– Listed Investments		**9,085**	**9,085**	7,992	7,992
Total available-for-sale financial assets	(iii)	**9,085**	**9,085**	7,992	7,992
Total financial assets		**23,616**	**23,616**	22,138	22,138
Financial liabilities					
Trade and other payables	(i)	**1,559**	**1,559**	1,712	1,712
Members' share capital	(iv)	**7,917**	**7,917**	8,205	8,205
Total financial liabilities		**9,476**	**9,476**	9,917	9,917

Notes to the Financial Statements

NOTE 24: 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 available-for-sale financial assets, closing quoted bid prices at the end of the reporting period are used. In determining the fair values of the unlisted available-for-sale financial assets, the directors have used inputs that are observable either directly (as prices) or indirectly (derived from prices).

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

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).

— Significant improvements in the equities market since GFC, has seen DFMC sell down on some stocks that has provided DFMC with a realised profit of $1.161 million ($24,642.00 in 2011/12)

2013	**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**
Financial assets			
Available-for-sale financial assets:			
— listed investments	**9,085**	-	-
	9,085	-	-

2012	**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**
Financial assets			
Available-for-sale financial assets:			
— listed investments	**7,992**	-	-
	7,992	-	-

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.

In valuing unlisted investments included in Level 2 of the hierarchy, valuation techniques such as comparison to similar investments for which market observable prices are available have been adopted to determine the fair value of these investments.

Notes to the Financial Statements

NOTE 25: EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances of significance have arisen 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 26: CO-OPERATIVE DETAILS

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

Directors' Declaration

The director's of the Co-operative declare that:

(a) the financial statements and notes set out on pages 17 to 37 are in accordance with the Co-operatives Act 1992 (as amended) and the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Co-operatives Act 1992 (as amended) 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 2013 and of its performance for the year ended on that date; and

  (iii) complies with International Financial Reporting Standards as disclosed in Note 1; and

(b) there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

J Macarthur-Stanham	**J Bywater**
Chairman	Director

Sydney, 30 September 2013

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Dairy Farmers milk co-operative

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