Annual Report
2020

DAIRY FARMERS MILK CO-OP

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Sydney, NSW 2000

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www.dfmc.org.au

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

Contents

Chairman

- Andrew Burnett

Directors

- James Geraghty
- Grant Sherborne
- Adrian Dauk
- John McKillop
- Bernice Lumsden

Bankers

- Australia and New Zealand Banking Group

Auditors

- Nexia Sydney Audit Pty Ltd

Solicitors

- Addisons Lawyers

Executive Officer & Secretary

- Mark Kebbell

Glossary

Organisational	
DFMC	Dairy Farmer's Milk Co-operative
LDD	Lion Dairy and Drinks
RM	Regional Manager
WRAC	Ward Representative Advisory Council
FSO	Farm Services Officer

Regions	
Northern	Comprises Far North Queensland, South East Queensland and New South Wales (excluding Riverina)
Southern	Comprises Victoria, Riverina and South Australia
FNQ	Far North Queensland
SEQ	South East Queensland
NSW	New South Wales (excludes Riverina)
Vic	Victoria (includes Riverina)
SA	South Australia

General	
$ per kg Fat	Dollars per kilogram of fat
$ per kg MS	Dollars per kilogram of milk solids
$ per kg Protein	Dollars per kilogram of protein
AFD	Anticipated Full Demand refers to the milk supply required to align DFMC's milk intake with the commercial needs of LDD
BMCC or SCC	Bulk Milk Cell Count or Somatic Cell Count refers to the concentration of white blood cells in the bulk milk and is measured as cells/ml
Cfu	Colony forming unit
cpl	Cents per litre
DMI	Domestic Milk Incentive
MRL	Maximum Residue Levels
MS	Milk solids
MSA	Milk Supply Agreement
RBD	Rebate on Business Done
Reference litre	For comparative purposes, a reference litre comprises 4% Fat and 3.2% Protein
RAM	Ruminant Animal Material
Simply Perfect	LDD Farm Quality Assurance Program
TPC	Total Plate Count is the concentration of viable micro-organisms in a sample such as bacteria and is measured as cfu/ml

Our core purpose is to ensure the dairy businesses of our members thrive and prosper over the longterm.

- Andrew Burnett, DFMC Chairman

Chairman's Report

On behalf of the board of Dairy farmers Milk Co-operative I present the Chairman's Report for the financial year 2020.

Milk production was again influenced by extremely dry conditions for the first six months of the year. Total production of 185 million litres was a reduction that was expected due to the climatic conditions and farm retirements. As the year went by some regions recovered with better than average rainfall while others had more modest totals. The effects of climate variability are now becoming more of a concern throughout our supply regions. The board understands the impact this has on farm, therefore both DFMC and our partner Lion will look to assist in many ways. The Co-op member loans facility was expanded and well received, which allowed members quick and easy access to a loan to support their business as they respond and rebuild from the drought. Farm numbers reduced slightly to 168.

The Co-op's income was drastically reduced this year by approximately $900 000. The new Milk Supply Agreement (MSA) has a greatly reduced aggregation fee, reduced interest rates and returns from our investments were also down. While costs are continually driven out of the business, the Co-op will report its first loss of $364 000 from continuing operations after tax before member distributions. This loss was expected and indeed less than we budgeted for. The board expects the Co-op to make a loss for a couple of years while it transitions to a multi supply contract business. It will take time however the board is committed to its strategic plan and is committed to return to profit inside three years. A dividend of 4% was paid with a little more than 40% reinvested back into the co-operative.

January 2020 was the introduction on the Mandatory Code of Conduct. DFMC was an early supporter of the Code and Mark Kebbell and the Management team did a wonderful job preparing the Co-op to be code compliant. The Code has made real change in the dairy industry and all processors or "first purchases" of milk like supply co-op and collective bargaining have been affected. DFMC used this change as an opportunity to improve our contracts with our farmers and strengthen our relationship with our processing partner Lion.

DFMC has continued to be heavily involved in the industry, supporting many inquiries, attending meetings and workshops, as well as sponsoring industry events. Some of the most notable would be the Senate inquiry, Dairy Plan and supporting our processing partner Lion in their sale process.

The Board would like to thank Lion for their ongoing support of the Co-op. CEO Kathy Karabastis and her team, especially the Farm Services division have been there to support our members firstly through tough climatic conditions then Covid 19 could have had a severe effect on the supply chain. With strong leadership from Lion and the rest of the Dairy industry the effect of Covid on our members has been minimal.

The Board and Co-op had to make many changes due to Covid and its isolating requirements. The Board has done all meetings since February 2020 online via Microsoft Teams, and while we are thousands of kilometres apart the work has continued, and it is now just part of everyday life. Our Regional Managers Tony Burnett and Dom Baxter had to adapt and change so they could still deliver the level of service our farmers required.

As Chairman it is important to communicate with Members at every opportunity. With face to face meetings not possible we all had to move online, supplier meetings were still well attended from members in the comfort of farm offices, tractors, or paddocks. This new communication tool is now more flexible, and I believe will be more widely adopted. The use of DFMC's social media platforms were also used with great success.

Again, this year, the Co-ops management team, led by Executive officer Mark Kebbell have a had a productive and rewarding year. One of the true strengths of DFMC is the relationship we build with our farmer/members and the wider dairy community and this would not be achieved without the hard work and dedication of this team.

In June we said goodbye to 2 farm directors, as they retired from the board and shifted their family's milk supply. Adrian Dauk had been the representative for South Australia since 2016 and was Deputy Chair since 2018. Adrian also chaired the Milk Price committee and was a hard-working, well respected farmer director. Bernice Lumsden had been the representative for Victoria since 2018, Bernice was on Audit and Finance committee, Milk Price committee and coordinated our AGM. Bernice displayed great attention to detail, work ethic and commitment. The board and members thank both Adrian and Bernice for their service and dedication.

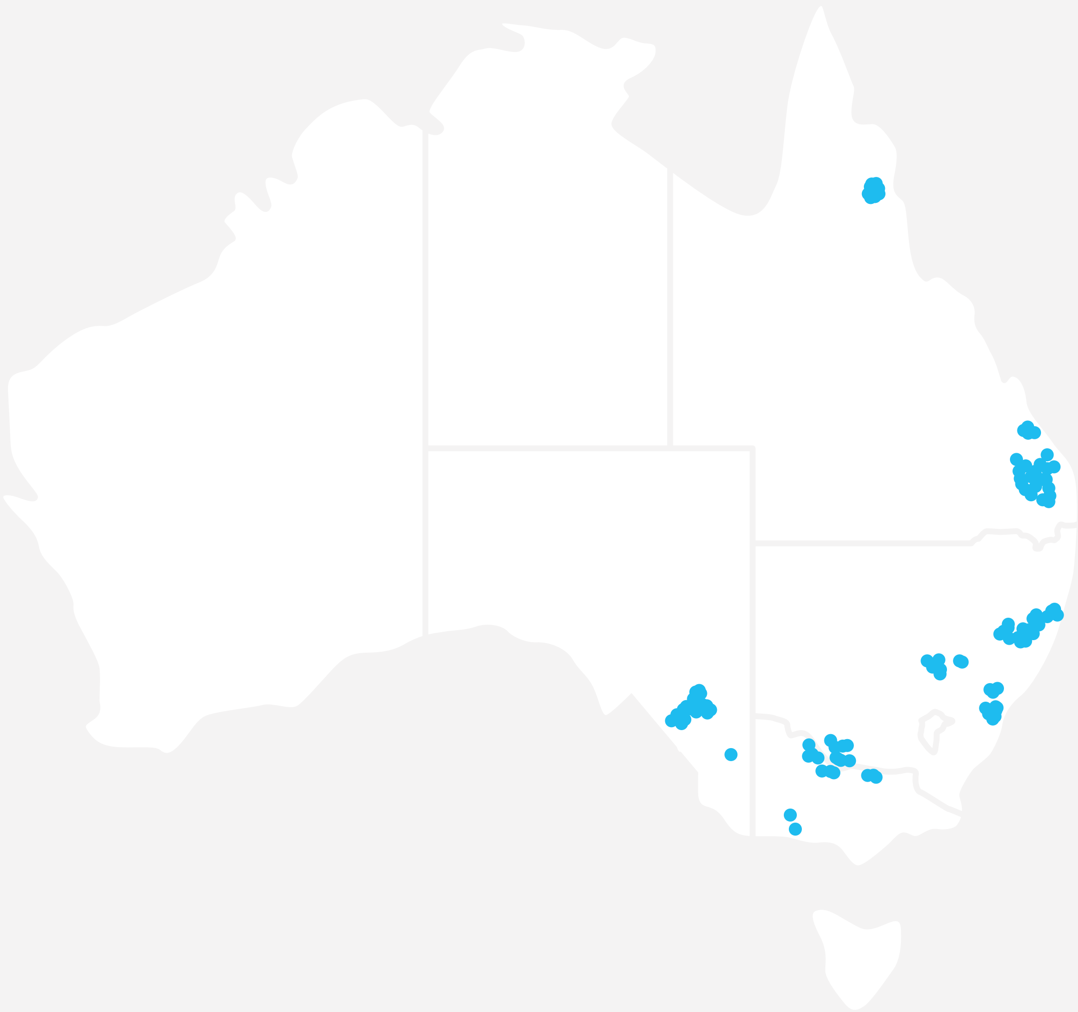
Finally, and most importantly, I wish to thank the members for their milk supply and commitment to the co-op. Together we have handled the challenges of the year and positioned ourselves to take advantage of the opportunities to come.

Yours sincerely,

Andrew Burnett
Chairman
Dairy Farmers Milk Co-operative

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

Our Co-operative in 2020



From Malanda in Queensland to Nowra in New South Wales and Murray Bridge in South Australia our co-operative of farms covers the length and breadth of Australia's eastern seaboard.

2019/20 Milk Production Overview

Region	No of farms	Litres (000,000)
FNQ	43	44m
SEQ	37	31m
NSW	42	50m
Vic	22	34m
SA	16	16m
Total	**160**	**185m**

160
Farms

353
Members

10
WRAC Members

5
Regions

4
Staff Members

6
Board Members

1.2
Average Milk Volume
Per Supplier (ML)

185
Total Farm Milk
Intake Volume (ML)

Executive Officer's Report

The financial year to June 30, 2020 was one that no-one will forget for the extraordinary pandemic the world faced and the subsequent changes to the ways so many tasks in farming, business and personal lives are now done.

We cannot forget of course that the beginning of the year was still marked by difficult drought conditions in many of our members' farming regions and of course the bushfires of January that saw a couple of DFMC dairy regions threatened, in particular NSW and SA. The first quarter of 2020 did bring widespread rain and relief for most of the east coast and bring some positivity and optimism back to the dairy sector.

The world-wide shock of Covid-19 pandemic brought about some swift government actions and big changes in consumer behaviour. The industry response, led by Dairy Australia, was comprehensive and successful with food production clearly an essential service. Farmers and processors developed covid-19 management plans and further, processors had to react quickly to the big changes in retail demand as lockdowns, school closures and border closures reframed how consumers lived and shopped.

After a long drawn out process Lion announced the sale of the Dairy and drinks business to Mengniu in late 2019, pending regulatory approvals. The ACCC announced that they had no objections in February however after a few months of consideration the Foreign Investment Review Board (FIRB) and the Treasurer announced it considered the sale was not in the national interest.

The Dairy Industry Code of Conduct (Code) was implemented on January 1, 2020 and brought about significant changes to how dairy processors and farmers contract milk supply. We have been supporters of the overarching premise of the Code addressing the imbalance of power between farmers and processors and transparency of contracts and pricing. Indeed, many of the requirements, such as publishing farmgate pricing online, we have long practiced. DFMC is defined as a processor by the Code by virtue of the fact we are the "first purchaser" of milk and therefore we made changes to our supplier contracts.

The dairy industry continued the development of the Dairy Plan with ideas developing around cohesion in industry structure and representation as well as profitability and transparency. Meanwhile various government inquiries into the Dairy continue with a federal senate inquiry, a NSW Parliamentary inquiry, and continuing review of the Code. DFMC continues to provide submissions and input on our members' behalf.

Production

The harsh realities of drought impacted production, particularly for the first half of the year and like much of the industry we saw significant numbers of farmers exit the industry. Across all regions we sadly saw around 20 farms leave dairying with northern Victoria seeing the biggest losses. The milk production numbers largely reflected the farm numbers and total production was down to 185 million litres. Dairy Australia figures across the nation does show however that the total milk production was down 0.2% to 8.8 billion litres was not down to the extent that DFMC regions experienced.

Far North Queensland production was down 10% to 43.5 million litres (ML) from 47.9 ML. The level does reflect Lion's commercial needs in the region and again there was relatively little milk transported from the region to South East Queensland (SEQ). We saw a bigger drop in SEQ with a further 8 suppliers making the decision to leave the industry. Production was down to 31 ML from approximately 38 ML the year prior.

In NSW production was only marginally down to just under 60 ML from 61.2 ML the prior year. Victoria again saw the largest number of suppliers leave the industry with a further 8 fewer than the than in July 2019. Clearly the cost of water continued to challenge the dairy operations in Northern Victoria and the uncertainty led to some making the decision the discontinue dairying. Our South Australia suppliers are in regions that faced different issues during the year – feed and water costs due to the drought as well as bushfires in January. Production was down to a little under 20 ML from 22.2 ML.

Mandatory Code of Conduct

January 1, 2020 saw the introduction of the Dairy Mandatory Code of Conduct (Code). This major initiative was an outcome of the major Dairy Inquiry by the ACCC concluded in April 2018 and, amongst other things, set out to simplify farmgate milk pricing structures, improve transparency, and lay the foundations for contractual relationships between farmers and processors. DFMC have been supportive of the Code from the outset with many of the major elements, for example publishing of milk prices online, being practices of our co-operative since inception.

DFMC were deemed to be a processor by the Code as we are the "first purchaser" of milk and this necessitated a significant review of our contracts to ensure they are compliant. DFMC played a role in the implementation of the Code with Tony Burnett joining the ACCC Dairy Consultative Committee. The transition was relatively smooth both from a DFMC and an industry-wide perspective.

The pandemic also necessitated using an online platform for supply contract signing which was very successful. We anticipate continuing with these much more efficient practices as the country and economy opens up.

Milk Price

Pricing negotiations are always an important period of the year for DFMC management and directors. As the milk pool shrunk in nearly all regions the competition for milk has rarely been as heightened. Together with the drought payments that the major supermarkets paid to the processors that held the Retailer Own Brand (ROB) milk contracts meant increases for farmgate prices across all regions. It must be acknowledged that with the increased costs of key inputs due to the drought, suppliers in all regions needed the improved prices. In the northern regions weighted average prices increased between 4 and 6 cents per litre form the prior year while in Victoria and South Australia the price lifted about 90c per kg milk solids.

Financial Performance

With the new Milk Supply Agreement (MSA) including an greatly reduced aggregation fee that reflects the current milk production levels set at $300,000 per year we had budgeted for a loss as we transition to a supply co-operative supplying more than one processor. The asset base that DFMC has was indeed set aside for just such a scenario. We reported our first loss, of $364,000 from continuing operations after tax which was better than we budgeted for with the impact of the pandemic on travel and associated costs down significantly. Our investment portfolio was impacted as well with capital growth and dividend income down on prior years. Some of our assets remain in cash term deposits and with interest rates are at historic lows interest income is also down.

Partnerships

Clearly the partnership with Lion Dairy & Drinks (LDD) remains foremost in our activities and we continue to have terrific working relationships with key personnel Agricultural Procurement team, headed up by Murray Jeffrey and the Milk Payments team led for much of the year by Mel Clubb and Julian Mancini.

The sale of the LDD businesses announced back in September 2018 continued through the year with an announcement late in 2019 that China Mengniu Dairy, a top 10 global dairy player, was the successful purchaser dependent on regulatory approvals from the ACCC and Foreign Investment Review Board (FIRB). At the end of the financial year no final decisions were announced, much to DFMC's disappointment. We acknowledge how difficult this process been for Lion management and staff and commend all on the way in which business has continued. Indeed, in August 2020 the federal Treasurer announced that the Mengniu purchase could not proceed as it was deemed to be not in the national interest. Subsequently, further interest in purchasing LDD has been shown and we are all hopeful for more clarity soon.

Acknowledgements

The directors have again all played important roles in representing the interests of all suppliers but primarily for the regions they represent. The ability to step back from individual interest and see the greater good is often difficult. In a commercial sector board, many of the issues we ask our co-operative's directors to consider would necessitate declaring a conflict of interest and not taking a direct part in the decisions. As geographic representative board like ours therefore requires a degree of selflessness. All suppliers owe a debt of gratitude to the directors. The support, guidance and close working relationship enjoyed by the management team with the board is instrumental to achieving and delivering for members.

With coronavirus impacting so significantly on how much of our business activities had to be carried out we achieved much of what we set out to, albeit somewhat compromised at times. Supplier meetings held online are a good example. We cannot replace face-to-face meetings completely however the supplier engagement and feedback in most regions suggests a degree of success. Most of our board meetings have been held online for nearly 2 years, so the transition was less disruptive.

Sadly, virtually all cross-border activities were not allowed so the movements of regional managers Tony Burnett and Dom Baxter have meant no visits for some suppliers for many months. Both have managed the difficulties of remote working and restricted travel well and have strived to keep service levels up in these difficult times. Finance Manager Dan Sacca has also been forced to work remotely and pull together the accounts, share register and reporting functions autonomously since March. The team deserve praise and gratitude from us all for making it all work seamlessly.

And finally, thanks to all suppliers for your determination to continue supplying quality milk through the last months of the drought, challenged by nearby fires for some and attending our online meetings and importantly providing feedback as we need it. The support for each other has again been important. This is illustrated by the rise of new collective bargaining groups and co-operatives throughout the country. Our model has a significant role to play in the industry and we will continue to evolve with your support and feedback.

Yours sincerely,

Mark Kebbell
Executive Officer
Dairy Farmers Milk Co-operative

Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2020.

Directors

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

- Andrew Burnett (Chairman)
- James Geraghty
- Grant Sherborne
- Adrian Dauk (resigned June 2020)
- Bernice Lumsden (resigned June 2020)
- John McKillop

Principal Activities

DFMC is governed by the Co-operatives (Adoption of National Law) Act 2012 and is domiciled in Australia.

There were no significant changes in the nature of DFMC's activities during the year.

Review of Results and Operations

Loss from continuing operations after income tax before member distributions of $364 thousand (2019: $676 thousand profit).

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 2019/20 financial year.

Subsequent Events

Lion Dairy & Drinks (LDD) has maintained their commercial milk requirements for DFMC which will see similar commercial requirements of Milk for LDD in 2020/21 financial year.

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

Future Developments

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

Environmental Performance

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

Director Information (Sitting Directors)

Andrew Burnett
Chairman

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

He has an Associate Diploma in Applied Science and has completed the Rabobank Executive Development Program for primary producers.

Andrew has previously worked in the cotton industry and now runs a farm in Gympie in South East Queensland with his wife, Fiona, and their two sons. Their dairy business produces around 2.3 million litres of milk from 350 cows.

James Geraghty
Director

James Geraghty has been a member of the DFMC Board since 2009, and works with his wife Sari, on their dairy farm in Millaa Millaa on the Atherton Tablelands in Far North Queensland.

His family moved to the area from Lismore in 1932 and have been dairy farming since then. James purchased his farm with his parents in 1981. James and his wife currently milk 230 cows year round and have an annual production of 1.4 million litres a year.

James is the District Chairman and State Councillor for Far North Queensland for the Queensland Dairyfarmers' Organisation and has an Advanced Diploma in Agriculture.

Grant Sherborne
Director

Grant Sherborne was appointed to the DFMC board in November 2013. His dairy, Willow Vale, is located at Burrawang in the Southern Highlands, New South Wales.

He has been involved in the day to day running of the farm since he left school. Grant is a passionate advocate for the industry and served as a DFMC ward representative for Southern Highlands from 2002 to 2013. He has been involved with the Cows Create Careers program and his local dairy industry group, DIG South Coast.

Grant has an Advanced Diploma of Agriculture and has also completed a director training course.

Adrian Dauk
Director

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

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

Bernice Lumsden

Director

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

John McKillop

Independent Director

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

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

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

Company Secretary

Mark Kebbell joined DFMC as its Executive Officer in October 2016 and is responsible for the operations of the Co-operative, including the development and implementation of its strategic vision, in conjunction with the Board.

Before joining DFMC, Mark held general management positions in the automotive services sector including Assist Australia, Allianz Insurance and Manheim.

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

Indemnification and Insurance

During the financial year, the Co-operative paid a premium to insure past and present directors and officers. The insurance contract prohibits further disclosure.

In addition, pursuant to its Rules, the Co-operative has indemnified past and present directors and officers of the Co-operative. The indemnity covers legal and other costs incurred in defending certain civil or criminal proceedings that may be brought against the directors or officers while acting in that capacity.

Proceedings on Behalf of the Entity

No person has applied for leave of court to bring proceedings on behalf of the Co-operative or intervene in any proceedings to which the Co-operative is a party for the purpose of taking responsibility on behalf of the Co-operative for all or any part of those proceedings.

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

Rounding of Amounts

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

Meetings of Directors

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

	Board Meetings		Audit, Finance and Governance		Milk Policy and Price	
	A	B	A	B	A	B
Andrew Burnett	11	11	2	2	-	-
Adrian Dauk	10	10	2	2	2	2
James Geraghty	11	11	2	2	-	-
Bernice Lumsden	10	10	2	2	2	2
John McKillop	11	11	2	2	-	-
Grant Sherborne	11	11	2	2	-	-

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 2020 as required by section 307C of the Corporations Act 2001 is set out on page number 17.

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

Andrew Burnett
Chairman

29 September 2020

John McKillop
Independent Director

29 September 2020

DFMC Current Sitting Directors

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

Auditors' Independence Declaration

To the Directors of Dairy Farmers Milk Co-operative Limited

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

As lead audit director for the audit of the financial statements of Dairy Farmers Milk Co-operative Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Nexia Sydney Audit Pty Ltd

Vishal Modi

Vishal Modi

Director

ASIC registered company auditor no.: 486119

Dated at Sydney this 29th day of September 2020

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Corporate Governance

Board of Directors

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

Audit, Finance and Governance Committee

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

Milk Price and Policy Committee

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

Member Services and Milk Policy

- Addressed by full board

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

The Board of Directors

Board Composition

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

John McKillop has assumed the independent director role and taken on the responsibility of chairing the Audit, Finance and Governance committee.

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

Board Responsibilities

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

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

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

Audit, Finance and Governance Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

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

Access and Reporting

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

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

Responsibilities

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

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

External Audit Appointment and Supervision

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

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

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

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

Member Services

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

Responsibilities

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

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

Communication with Members

The Co-operative ensures members are informed of all major developments. This is achieved through a range of activities including:

- This annual report being distributed to all members.
- The annual general meeting, which members are encouraged to attend.
- The national convention which is held each year.
- Newsletters, emails and SMS messages.
- DFMC website www.dfmc.org.au

WRAC

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

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

- Issues are considered in the context of the farms and farmers from within the WRAC member's region.
- Members attended two key WRAC/DFMC online strategic conferences during the year.
- WRAC members are provided with skills-based training to better prepare them as leaders of the dairy industry.

Farmer Development

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

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

Milk Price and Policy Committee

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

The chairman attends all committees by invitation.

Composition

The committee currently comprises:

- Adrian Dauk (Chair)
- Bernice Lumsden

Access

The committee maintains detailed records on competitive milk pricing, utilises pricing spreadsheets and engages in negotiations with Lion executives to establish the milk price and Anticipated Full Demand (AFD) for our regions.

Additionally the committee has access to independent industry analysis and retail sales data in establishing the commercial needs of the processor.

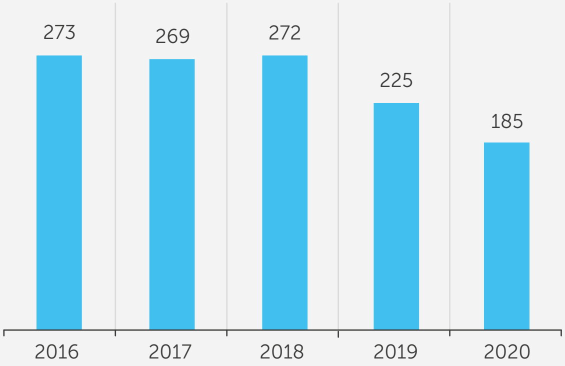
Responsibilities

The role of the committee is to negotiate on behalf of the DFMC Board and our members the base milk price and regional AFD for the coming financial year. The committee reports back to the board and makes recommendations for board consideration and approval. To fulfil this role, the committee:

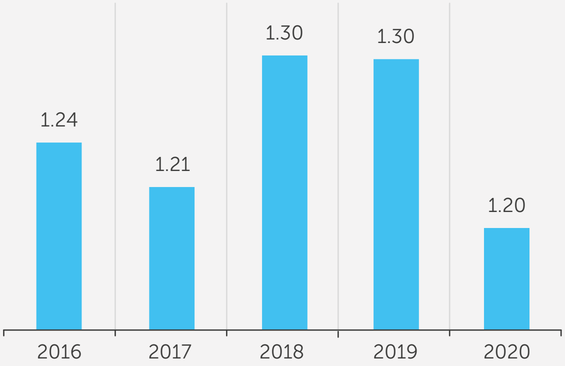
- Collates competitive milk prices paid in each region.
- Considers market supply and demand conditions including seasonal weather conditions.
- Tracks farm costs of production trends. Seeks independent counsel and monitors closely retail market share trends and LDD commercial sales of milk products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

Financial Statements

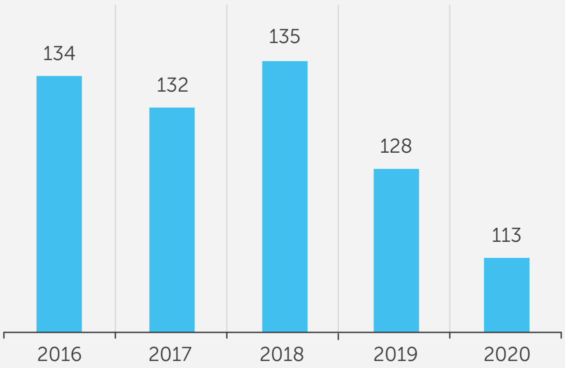
Financials at a Glance



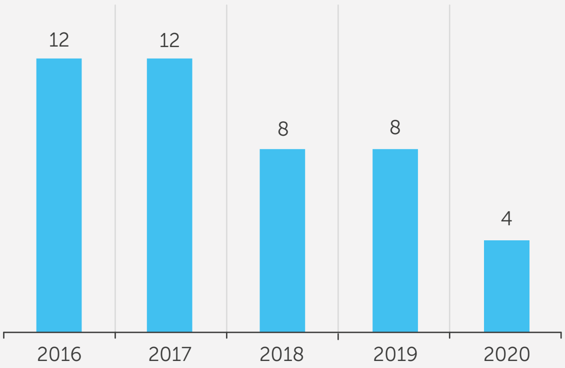
Total Farm Milk Intake Volume (ML)



Average Milk Volume Per Supplier (ML)



Sales Revenue (Million)



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

With the aggregation fee down the co-op budgeted its first loss. The result was better than expected with costs continually driven out of the business.

Statement of Profit or Loss & Other Comprehensive Income

For the year ended 30 June 2020	Notes	2020 $'000	2019 $'000
Sales revenue	2	112,686	127,746
Cost of sales		(112,686)	(127,746)
Gross profit		-	-
Aggregation fee revenue	2	300	1,100
Operation fee revenue	2	-	225
Administration expenses	3	(1,275)	(1,669)
Net administration result		(975)	(344)
Investment revenue			
Dividend revenue – Equities	2	514	573
Interest revenue	2	134	165
Fees and charges			
Portfolio advisory fees, interest and other charges	3	(68)	(57)
Other income			
Other income	2	-	328
Net investment and financing result		580	1,009
Profit / (loss) from continuing operations before income tax		(395)	665
Income tax benefit	4	(31)	(11)
Profit / (loss) from continuing operations after income tax before member distributions		(364)	676
Members' dividend payments* - ordinary	5	(135)	(288)
Profit / (loss) for the year	17	(499)	388
Other comprehensive Income: Items that may be reclassified to profit or loss			
Net profit on revaluation of financial assets, net of tax		(657)	504
Other comprehensive income for the year		(657)	504
Total comprehensive income / (loss) for the year attributable to members of the Co-operative		(1,156)	892

* Note that in accordance with AIFRS, dividend payable to members on their ordinary shares are included as costs within the income statement. Accordingly, the profit attributable to members of the Co-operative is presented after deducting such costs. Refer to notes 1(k), 5 and 16.

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

Statement of Financial Position

As at 30 June 2020	Notes	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	6	5,122	831
Receivables	7	300	793
Other current assets	8	1,012	5,673
Total current assets		6,434	7,297
Non-current assets			
Financial assets	9	11,823	13,061
Right-of-use assets	11	46	-
Property, plant and equipment		7	12
Total non-current assets		11,876	13,073
Total assets		18,310	20,370
Current liabilities			
Payables	12	277	412
Other liabilities	13	75	-
Lease liability	14	22	-
Provisions	15	64	98
Total current liabilities		438	510
Non-current liabilities			
Provisions	15	23	17
Members' share capital*	16	3,143	3,445
Lease liability	14	24	-
Deferred tax liabilities	10	233	793
Total non-current liabilities		3,423	4,255
Total Liabilities		3,861	4,765
Net Assets		14,449	15,605
Equity			
Retained profits	17	12,944	13,443
Reserves	20	1,505	2,162
Total equity		14,449	15,605

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(h), 5 and 16.

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

Statement of Changes in Equity

For the year ended 30 June 2020	Retained profits $'000	Financial assets Reserve $'000	Total $'000
Balance at 30 June 2018*	13,055	1,658	14,713
Profit attributable to the Co-operative	388	-	388
Total other comprehensive income for the year	-	504	504
Balance at 30 June 2019*	13,443	2,162	15,605
Loss attributable to the Co-operative	(499)	-	(499)
Total other comprehensive income for the year	-	(657)	(657)
Balance at 30 June 2020*	12,944	1,505	14,449

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(h), 5 and 16.

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

Statement of Cash Flows

For the year ended 30 June 2020	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		868	1,439
Payments to suppliers, employees and directors		(1,479)	(1,578)
Dividends received		514	572
Interest received		134	165
Dividends and farm rebates paid - ordinary shares		(78)	(178)
Net operating cash flows	25	(41)	420
Cash flows from investing activities			
Payment for investment in equities		(98)	(1,100)
Proceeds from sale of investments		150	273
Payment for property, plant and equipment		-	(11)
Proceeds from maturity of term deposits		4,661	(103)
Net investing cash flows		4,713	(941)
Cash flows from financing activities			
Share subscriptions received		180	232
Repayment of lease liability		(22)	-
Repayment of share forfeit loans		(539)	(488)
Net financing cash flows		(381)	(256)
Net increase / (decrease) in cash		4,291	(777)
Cash at the beginning of the financial year		831	1,608
Cash at the end of the year	6	5,122	831

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

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

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

a) Basis of preparation

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

These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The Co-operative is a for-profit entity for the purpose of preparing the financial statements.

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

The financial statements for the year ended 30 June 2020 were approved and authorised for issue by the Board of Directors on 29 September 2020.

b) Cash and cash equivalents (note 6)

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

c) Receivables (note 7)

(i) Other receivables

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

(ii) Collectability

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

d) Impairment

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

e) Payables (note 12)

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

f) Borrowings

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

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

g) Employee benefits (note 15)

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

Note 1: Summary of Significant Accounting Policies (continued)

g) **Employee benefits (note 15 continued)**

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

h) **Members' share capital (note 16)**

Ordinary shares are initially recorded at fair value and are subsequently measured at amortised cost. As a result, the liability is measured at $1.00 per share. When ordinary shares are repurchased, the consideration of $1.00 per share is deducted from members' share capital.

i) **Right-of-use assets (note 11)**

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

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

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

j) **Lease liabilities (note 14)**

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

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

k) **Revenue recognition (note 2)**

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

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

Revenue is recognised for the major business activities as follows::

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

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

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

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

(v) Interest revenue
Interest income is recognised on a time proportion basis using the effective interest method.

Note 1: Summary of Significant Accounting Policies (continued)

l) Finance costs (notes 3 and 5)

(i) Dividend rate
A provision is made for interest payable on members' share capital, which is calculated at the rate of dividend payable on ordinary shares, when the dividend has been appropriately authorised on or before the end of the financial year but not paid and is no longer at the discretion of the Co operative.

(ii) Other finance costs
Interest expense is recognised on a time proportion basis using the effective interest method.

m) Income tax (notes 4 and 10)

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

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

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

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

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

n) Reporting period

The financial report has been prepared for the financial year ended 30 June 2020.

o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to the taxation authority is included with other receivables or trade creditors and accruals in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented in operating cash flows.

p) Rounding of amounts

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

q) Comparative figures

Comparatives are consistent with prior period, unless stated otherwise.

r) New accounting standards

New and revised standards are effective for annual periods beginning on or after 1 July 2019

The Co-operative has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

AASB 16 Leases

The Co-operative has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Note 1: Summary of Significant Accounting Policies (continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Co-operative for the annual reporting period ended 30 June 2020. The Co-operative's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Co-operative, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

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

s) Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

(i) Financial assets measured at amortised cost

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

(ii) Financial assets at fair value

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

(iii) Financial liabilities

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

Impairment

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

Derecognition

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

t) Significant judgments in applying accounting policies

Recovery of deferred tax assets

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

Valuation of investments

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

Coronavirus (COVID-19) pandemic

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

Note 2: Revenue and Other Income	2020 $'000	2019 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	112,686	127,746
	112,686	127,746
Other administration and investment revenue		
Aggregation fee revenue (b)	300	1,100
Operation fee revenue (c)	-	225
Dividend revenue – Equities	514	573
Interest revenue	134	165
	948	2,063
Total revenue from continuing operations	113,634	129,809
Other income		
Other Income (d)	-	328

a) **Sale of goods to DFL**

DFMC has signed an Amendment and Restatement Deed Milk Supply Agreement with DFL. This extends the term of the agreement by 3 years and will expire on 30 June 2022.

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

b) **Aggregation fee revenue**

Under the Milk Supply Agreement between DFMC and DFL, the Aggregation Fee for the year ended 30 June 2020 was agreed at $300,000 (2019: $1.1 million). The Aggregation Fee partially covers the costs or expenses connected with the consolidation or aggregation of the milk supply for on sale to DFL.

c) **Operation fee revenue**

No additional revenue was received by DFMC in the current year over the agreed aggregation fee to cover the Co-operatives day to day running costs as agreed in the new Milk Supply Agreement.

d) **Other income**

No additional revenue was received by DFMC in the current year over the agreed aggregation fee to cover the Co-operatives Farm Advisory Services as agreed in the new Milk Supply Agreement.

Note 3: Expenses	2020 $'000	2019 $'000
Profit before income tax includes the following specific expenses		
Fees and charges		
Portfolio advisory fees and bank charges	65	57
Interest expense – lease liability	3	-
	68	57
Administration expenses		
Employee and director benefits expense	778	786
Defined contribution superannuation expense	71	78
Travel expenses	65	100
Consultancy fees	40	166
Legal fees	86	67
Other expenses	235	472
	1,275	1,669

Note 4: Income Tax	2020 $'000	2019 $'000
a) **Income tax expense reconciliation**		
Profit / (Loss) before income tax	(530)	(377)
Income tax (benefit)/expense calculated at 30% (2019: 30%)	(158)	113
Tax effect of amounts not deductible or (taxable)		
Franked amount of members' share capital payments	20	25
Other non-deductible expenditure	-	5
Franked dividend revenue	54	(3)
	(84)	140
Recognition of prior period tax losses not recognised in prior years	-	(155)
Carried forward tax losses where no deferred tax effect has been recognised	59	-
Over provided in prior years	(6)	4
Income tax benefit	(31)	(11)
Average effective tax rate	(5.9%)	(2.8%)
b) **Income tax expense analysis**		
Deferred tax		
Changes in deferred tax assets (Note 10)	(31)	(11)
Income tax (benefit)/expense	(31)	(11)
c) **Unrecognised tax losses**		
Unused tax losses for which no deferred tax asset has been recognised	15,906	14,709
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	4,772	4,413

Note 5: Dividends on Members' Share Capital	2020 $'000	2019 $'000

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

Dividends		
a) **Special dividends – recognised and paid during the financial year**		
Payment date	13/12/2019	14/12/2018
Dividend per share	$0.04	$0.08
Per cent franked	50%	50%
Paid in cash	78	178
Re-invested DFMC shares	57	110
Total ordinary dividends paid during the financial year	135	288

Franking credits		
b) **Franking credits available for subsequent financial years**	777	325

The above franking account balance has been adjusted for:

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

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

Interest payable at dividend rate

c) **Under Co-operatives National Law (NSW) if membership is cancelled, share capital must be repaid to the former member within one year of the cancellation. Current DFMC policy is to repay share capital as soon as possible following cancellation. Under certain specified circumstances, the amount may be retained and applied as a deposit, debenture or CCU with interest payable at the dividend rate. No amounts were retained, under these provisions, in the financial year ended 30 June 2020 and therefore no interest was paid.**

Note 6: Cash and Cash Equivalents	2020 $'000	2019 $'000
Cash and cash equivalents	5,122	831
Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 1.85% and 2.75% (2019: 2.35% and 2.77%).		

Note 7: Receivables	2020 $'000	2019 $'000
Current		
Other receivables	300	793

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

2019	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	793	-	-	-	-	-	793

Note 8: Other Current Assets	2020 $'000	2019 $'000
Prepayments	12	12
Term deposits	1,000	5,661
	1,012	5,673

Note 9: Financial Assets	2020 $'000	2019 $'000
Financial assets at Fair Value – shares in listed corporations	11,823	13,061

a) **Investment in equities**

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth in February 2010 to invest $8.5 million in the Australian equities market. There are no fixed returns or fixed maturity dates attached to these investments. In March 2019 DFMC transitioned investment advisory services to Franklin Advisory.

Note 10: Deferred Tax Assets & Liabilities	2020 $'000	2019 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	34	(1)
Employee provisions	26	29
Total deferred tax assets	60	28
a) **Movements in deferred tax assets**		
Balance at the beginning of the year	28	18
Opening balance adjustment	6	-
Credited to the income statement	26	16
Over in prior year	-	(6)
Balance at the end of the year	60	28
b) **Timing of recovery**		
To be recovered		
Within 12 months	53	24
After 12 months	7	4
	60	28
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Mark-to-market investments	293	821
Total deferred tax liabilities	293	821
c) **Movements in deferred tax liabilities**		
Balance at the beginning of the year	821	605
Charged to equity	(528)	216
Balance at the end of the year	293	821
d) **Timing of settlement**		
To be settled		
Within 12 months	293	821
	293	821
Total net deferred tax balances	(233)	(793)

Note 11: Right-of-use assets	2020 $'000	2019 $'000
Right-of-use assets – motor vehicles	68	-
Less: accumulated depreciation	(22)	-
	46	-

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

Note 12: Payables	2020 $'000	2019 $'000
Trade creditors and accruals	277	412

Note 13: Other liabilities	2020 $'000	2019 $'000
Deferred income	75	-

Note 14: Lease liabilities	2020 $'000	2019 $'000
Current		
Lease liabilities	22	-
Non-current		
Lease liabilities	24	-

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

Note 15: Provisions	2020 $'000	2019 $'000
Current		
Employee benefits	64	98
Non-current		
Employee benefits	23	17
Balance at the beginning of the year	115	77
Charged to the statement of comprehensive income	46	(28)
Amounts used	(74)	66
Balance at the end of the year	87	115

Note 16: Members' Share Capital	Number of Shares 2020 #	Number of Shares 2019 #	Nominal Value 2020 $'000	Nominal Value 2019 $'000
Opening balance – shares of $1 each (fully paid)	3,444,582	3,701,105	3,445	3,701
Shares issued	170,365	152,773	170	153
Share levies (a)	66,955	79,136	67	79
Shares forfeited (b)	(538,992)	(488,432)	(539)	(488)
Closing balance – shares of $1 each (fully paid)	3,142,910	3,444,582	3,143	3,445
Balance at the end of the year	3,142,910	3,444,582	3,143	3,445

Ordinary shares

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

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

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

a) **Milk payment deductions**

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

b) **Shares forfeited**

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

c) **Capital management**

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

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

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

Note 17: Retained Profits	2020 $'000	2019 $'000
Balance at the beginning of the year	13,443	13,055
Profit / (Loss) attributable to members	(499)	388
Balance at the end of the year	12,944	13,443

Note 18: Commitments for Expenditure		
The Co operative had nil commitments as at 30 June 2020.		

Note 19: Contingent Liabilities and Contingent Assets		
The Co operative had no contingent liabilities or assets as at 30 June 2020.		

Note 20: Financial Assets Reserve	2020 $'000	2019 $'000
The financial assets reserve records revaluation increments and decrements that relate to financial assets that are classified as financial assets at fair value.	1,505	2,162

Note 21: Auditors' Remuneration	2020 $	2019 $
Amount received, or due and receivable by Nexia Sydney Audit Pty Ltd for audit of the financial report	18,000	17,850
Amount received, or due and receivable for other services	21,000	6,050

Note 22: Key Management Personnel Disclosures

a) **Directors**

The directors of the Co operative during the year and up to the date of the Directors' Report were:
A D R Burnett (Chairman), J B Geraghty, G Sherborne, A Dauk, Bernice Lumsden, John McKillop.

b) **Executive Officer**

DFMC appointed Mark Kebbell as Executive Officer in November 2016. The compensation of the Executive Officer is included within the key management personnel compensation disclosed in note 22(d).

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

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

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

Note 22: Key Management Personnel Disclosures (continued)

	2020 $	2019 $
d) Key management personnel compensation		
Short-term employment benefits	777,563	786,378
Post-employment benefits (superannuation)	71,220	78,222
Total key management personnel compensation	848,783	864,600

The compensation noted above comprises the following per annum fixed directors' fees (inclusive of superannuation). The compensation noted above also includes the Executive Officer, Farm Advisory Services and Finance Manager which are now employed directly by the Co-operative.

	Number of Directors	Per Annum Fee $
Director fees for the current financial year are:		
Chairman	1	70,000
Other directors	5	185,000

e) Other transactions with key management personnel

a. Farmer directors

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

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

Note 23: Related Party Transactions and Economic Dependency

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

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

Under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $Nil

(2019: $100,000) to DFL during the financial year to cover the cost of providing administrative facilities and services including offices, communication services, computer hardware and systems, and accounting and secretarial services.

Note 24: Financial Facilities

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

Note 25: Cash Flow Reconciliation

	2020 $'000	2019 $'000
Profit / (loss) attributable to members	(499)	388
Non-cash items in operating profit		
Other non-cash items	556	193
Dividend and farm rebate reinvestment	57	110
Movement in assets and liabilities		
(Increase) / decrease in prepayments	-	(2)
(Increase) / decrease in receivables	493	(212)
Increase / (decrease) in deferred tax liabilities	(560)	(206)
Increase / (decrease) in payables and accruals	(60)	112
Increase / (decrease) in provisions	(28)	37
Net cash inflow from operating activities	(41)	420

Note 26: Financial Risk Management

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

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

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Co-operative. The Co-operative is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc. The Co-operative's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

Note 26: Financial Risk Management (continued)

	Notes	2020 $'000	2019 $'000
Classes of Financial assets			
Carrying amounts:			
Cash and cash equivalents	6	5,122	831
Loans and receivables	7	300	793
Term deposits	8	1,000	5,661
Financial assets at fair value	9	11,823	13,061

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

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

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

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

Liquidity risk

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

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

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

Note 26: Financial Risk Management (continued)

At 30 June 2020 the Co-operative's financial assets and liabilities are as follows::

	Notes	2020 $'000	2019 $'000
Financial assets			
Cash and cash equivalents	6	5,122	831
Loans and receivables	7	300	793
Term deposits	8	1,000	5,661
Financial Assets at fair value:			
– listed investments	9	11,823	13,061
Total financial assets		18,245	20,346
Financial liabilities			
Financial liabilities at amortised cost:			
– trade and other payables	12	277	412
– lease liability	14	46	-
– members' share capital	16	3,143	3,445
Total financial liabilities		3,466	3,857

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

Note 26: Financial Risk Management (continued)

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Financial liabilities due for payment								
Trade and other payables	277	412	-	-	-	-	277	412
Lease liabilities	22	-	24	-	-	-	46	-
Members' share capital	-	-	-	-	3,143	3,445	3,143	3,445
Total contractual outflows	299	412	24	-	3,143	3,445	3,466	3,857
Total expected outflows	299	412	24	-	3,143	3,445	3,466	3,857
Financial assets — cash flows realisable								
Cash and cash equivalents	5,122	831	-	-	-	-	5,122	831
Term deposits	1,000	5,661	-	-	-	-	1,000	5,661
Trade, term and loan receivables	300	793	-	-	-	-	300	793
Other investments	-	-	-	-	11,823	13,061	11,823	13,061
Total anticipated inflows	6,422	7,285	-	-	11,823	13,061	18,245	20,346
Net inflow on financial instruments	6,123	6,873	(24)	-	8,680	9,616	14,779	16,489

Note 26: Financial Risk Management (continued)

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

	2020 $'000	2019 $'000
Banks	2,922	3,625
Commercial services & supplies	304	698
Diversified financials	242	291
Energy	408	643
Food & drug retailing	545	470
Health care equipment & services	305	293
Insurance	166	221
Materials	1,282	1,468
Pharmaceuticals & Biotechnology	817	715
Real estate	44	113
Retailing	351	283
Telecommunication services	215	265
Transportation	710	681
Other	3,512	3,295
	11,823	13,061

Price risk

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

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

Sensitivity analysis

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

Note 26: Financial Risk Management (continued)

	Profit $	Equity $
Year ended 30 June 2020		
+/- 2% in interest rates	+/- 127	+/- 127
+/-10% in listed investments	N/A	+/- 1,258
Year ended 30 June 2019		
+/- 2% in interest rates	+/- 128	+/- 128
+/-10% in listed investments	N/A	+/- 1,196

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

Net Fair Values

Fair value estimation

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

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

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the company. Most of these instruments which are carried at amortised cost (i.e. trade receivables & loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the company.

Note 26: Financial Risk Management (continued)

		2020		2019	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	Footnote	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	(i)	5,122	5,122	831	831
Term deposits	(i)	1,000	1,000	5,661	5,661
Trade and other receivables	(i)	300	300	793	793
		6,422	6,422	7,285	7,285
Financial asset at fair value through other comprehensive income:					
– at fair value:					
– Listed Investments		11,823	11,823	13,061	13,061
Total financial asset at fair value through other comprehensive income	(iii)	11,823	11,823	13,061	13,061
Total financial assets		18,245	18,245	20,346	20,346
Financial liabilities					
Trade and other payables	(i)	277	277	412	412
Lease liabilities	(iv)	46	46	-	-
Members' share capital	(iv)	3,143	3,143	3,445	3,445
Total financial liabilities		3,466	3,466	3,857	3,857

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

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

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

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

(iv) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates.

Note 26: Financial Risk Management (continued)

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

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

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

Note 27: Events After the Reporting Period

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

Note 28: Co-operative Details

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

Directors' Declaration

The directors of the Co-operative declare that:

a) **The financial statements and notes set out on pages 23 to 50 are in accordance with the Co-operatives (Adoption of National Law) Act 2012 and the Corporations Act 2001, including:**

   (i) complying with Accounting Standards, the Co-operatives (Adoption of National Law) Act 2012 the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Co-operative's financial position as at 30 June 2020 and of its performance for the year ended on that date

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

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

Andrew Burnett
Chairman

29 September 2020

John McKillop
Independent Director

29 September 2020

Independent Auditor's Report

Nexia Australia

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Dairy Farmers Milk Co-operative Limited (the Co-operative), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

i) giving a true and fair view of the Co-operative's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

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

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Co-operative, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information comprises the information in Dairy Farmers Milk Co-operative Limited's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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Independent Auditor's Report

Directors' responsibility for the financial report

The directors of the Co-operative are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility for the audit of the financial report

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

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

Report on Other Legal and Regulatory Requirements

In our opinion, the financial report of Dairy Farmers Milk Co-operative Limited gives a true and fair view of the Co-operative's financial position as at 30 June 2020 and of its performance for the year ended on that date, in accordance with the requirements of the Co-operatives (Adoption of National Law) Act 2012.

Nexia Sydney Audit Pty Ltd

Vishal Modi
Director
Dated: 29th day of September 2020

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

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