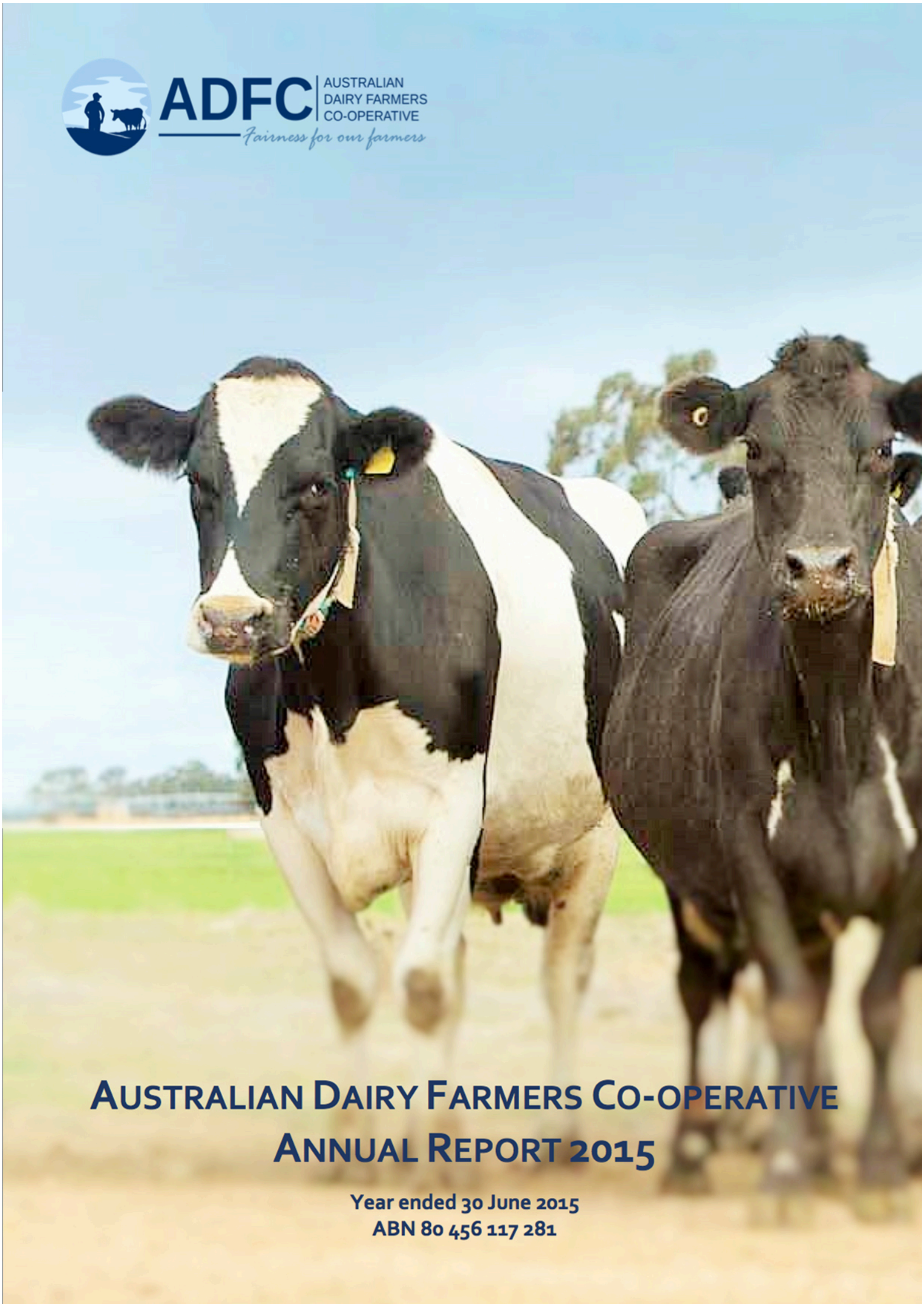
ADFC | AUSTRALIAN DAIRY FARMERS CO-OPERATIVE

Fairness for our farmers



AUSTRALIAN DAIRY FARMERS CO-OPERATIVE ANNUAL REPORT 2015

Year ended 30 June 2015

ABN 80 456 117 281

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Australian Dairy Farmers Co-operative
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Corporate Directory

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Sydney
New South Wales 2000

PRINCIPAL PLACE OF BUSINESS
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Docklands
Victoria 3008
Telephone: +61 3 9909 2208
Website: adfc.org.au

Australian Dairy Farmers Co-operative Limited (ADFC) is a co-operative and domiciled in Australia.

CHAIRMAN
Scott Sieben

DIRECTORS
Michael Roache
Paul Kerr

CHIEF EXECUTIVE OFFICER
Paul Kerr

COMPANY SECRETARY
Beenish Shiraz

BANKERS
Australia and New Zealand Banking Group

AUDITORS
Grant Thornton Audit Pty Ltd

SOLICITORS
HWL Ebsworth Lawyers

ADFC

Australian Dairy Farmers Co-operative (ADFC) is an independent dairy co-op run by Australian dairy farmers.

ADFC farmers are based in the western district and northern Victoria and they supply around 125 million litres of milk to the co-operative's two partners – Bulla Dairy Foods and Procal Dairies.

The co-op was formed in 2012 with a firm and guiding principal: to look after farmers and ensure that milk pricing is fair for them.

The ADFC Board and management team believe the key to a thriving Australian dairy industry lies with farmers running profitable businesses so they can invest back into their farms. With security assured, ADFC farmers can produce quality milk, adhere to best practice in animal welfare, care for the environment and develop their dairy businesses.

ADFC's core values are the four **C**s:

- **Collaborative** – the co-op will not compete with its customers, instead it will co-invest to maximise efficiency of the supply chain.

- **Co-operative** – our farmers are all members and shareholders in the business and share the risk and success.

- **Choice** – a flat milk pricing structure allows ADFC farmers to choose the milk production pattern that is best suited for their farm.

- And finally, **Cost-effective** – a farmer-focused, low-cost model underpins ADFC's operations and business development decisions.

Chairman's Report

The 2014-2015 financial year was a big one for ADFC and it firmly established the co-operative as a niche player in the Australian dairy industry. We started working with a new partner, we significantly increased our supplier base and milk production, we became truly independent, we opened the conversation about taking the co-operative to a new level, and we restructured our board and staff.

While all of this happened, ADFC continued to remain true to its guiding principles – of treating its farmers fairly and helping them run profitable businesses. It was these principles which saw our farmers back a plan for them to become potential investors in ADFC and for the co-operative to fully explore its options and seek investment opportunities. By investing in the business and effectively sharing the risk with our partners, farmers are ensuring they get the highest possible return at the farm gate. When a co-operative model is followed – the benefits flow to the farmers.

The year in review

We opened the 2014-15 financial year very strongly with the commencement of a new contract to supply milk to Bulla Dairy Foods, having entered into a partnership with the iconic Australian dairy company in May 2014. The opening milk prices were set high in line with other processors and market conditions at the time. Our average price in Victoria was around $6.50 a kilogram of milk solids.

July, August and September: Over three months we welcomed 48 new suppliers to ADFC and we started supplying around 105 million litres of milk to Bulla on an annualised basis.

August 2014: Beenish Shiraz joined ADFC as the Finance Manager and Company Secretary.

September 2014: On September 1, Paul Kerr joined the business as its General Manager replacing Greg Griffiths, who finished up as executive officer and secretary in August. I would like to thank Greg for his contribution to ADFC. The move was one of the first in a series of steps that would eventually see ADFC officially separate from Dairy Farmers Milk Co-operative (DFMC) – the co-operative that established ADFC in 2012.

December 2014: We had our last pick up of milk from our suppliers in south east Queensland and northern New South Wales with the milk supply contract between ADFC and Richmond Dairies coming to a mutual conclusion at the end of 2014.

March 2015: Supplier meetings were held in Colac, Allansford and Echuca. The ADFC Board and management team started the discussion with our farmers about the possible future direction of the co-operative. We received overwhelming support from our suppliers to develop a plan that could see our farmers invest in ADFC – and in turn see ADFC look for investment opportunities.

May 2015: ADFC officially separated from DFMC and the three remaining DFMC board members finished up on the ADFC Board. This was a significant step for ADFC and an important move to allow the co-operative to operate and grow in its own right. I would like to thank the DFMC management team and directors for their advice and support during ADFC's set up phase.

June 2015: Cath Jenkins was appointed as an interim director on the ADFC Board and served in this position for three months. We thank her for her time and advice as we took the co-operative's development plan to our farmers for their input.

June-July 2015: We opened the 2015-16 financial year with a milk price of $5.87 a kilogram of milk solids for both our Procal and Bulla suppliers. There were tough market conditions to contend with and processors opened with lower prices than last year. We were pleased to be able to offer a premium price that was fair and competitive. As always, we worked closely with our partners Bulla and Procal to arrive at the price.

Looking ahead

ADFC is set to continue to evolve and develop for the 2015-16 season. The co-operative has some bold plans as it continues to stay true to its founding values. Here's what is in store for the 2015-16 season:

- ADFC suppliers to become members and shareholders
- ADFC rules to be changed to allow for future development and investment
- PwC to be engaged to find an investment partner
- New ADFC Board members
- New ADFC Board Advisory Committee
- Potential equity raising and share subscription

We will continue to work closely with our partners Bulla Dairy Foods and Procal Dairies. Both dairy companies remain committed to the partnership with ADFC as we all focus on running successful businesses that ensure growth and prosperity for each party. We look forward to continuing to work with them and welcoming another partner to work with ADFC in 2016.

In conclusion: This is an exciting time for ADFC and a great opportunity for our farmers to create the type of dairy business that can provide a fair model that they need. We have the right ingredients: we are independent, we are flexible, we can work with multiple processors and partners, and we have a simple guiding goal: to always seek fairness for our farmers.

It has been a great honour to serve as ADFC Chairman for the 2014-2015 financial year and I thank my family, my fellow board members, the ADFC management team and all the ADFC farmers for making this year such a dynamic and enjoyable one.

Scott Sieben
Chairman

CEO's Report

ADFC has continued to grow as a business during the 2014-15 financial year. I joined ADFC in September 2014 and was given the task of developing a strategic plan for the business.

Work began immediately and it became very clear that if ADFC was to succeed, it needed to be more than just a milk trading business. If ADFC farmers wanted to have a say in their future, then they would need to find a way to invest in processing assets.

From this premise, we have developed a strategic plan that will give our farmers the opportunity to invest in ADFC and in turn for ADFC to seek investment opportunities, which will give security of supply for our farmers and will also allow them to have more input into milk pricing.

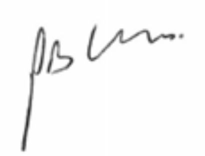
Our initial discussion with our farmers took place early in 2015 and they showed overwhelming support for the business to look at its options. These options include the possibility of seeking an investment partner and co-investing in a new processing facility. Only time will tell if this is possible and we will continue to discuss all our options with our farmers for the remainder of 2015 and 2016.

In order to execute the strategic plan, ADFC has had to make some changes and restructure parts of the business. This process began during the year and the first stage of this was completed with the separation of ADFC from DFMC. The restructure process will continue in 2015-16 with all our suppliers coming on as members and with the business implementing a new constitution.

There will be challenges as we progress with our plan, but we have the right people working on it to give ADFC the best possible chance of securing a bright future for our farmers.

I am looking forward to another exciting and challenging year ahead.

Finally I would like to thank everyone for all their hard work and commitment to ADFC during the 2014-15 financial year.



Paul Kerr
Chief Executive Officer

Looking ahead: ADFC Board & Committee

The ADFC Board will continue to evolve along with the co-operative. The 2014-15 financial year saw the remaining DFMC directors end their terms and an interim member appointed. Heading into 2015-16 ADFC's Board of Directors will work with a Board Advisory Committee so there will be six ADFC farmers overseeing the co-operative's development and restructure phase.

Board of Directors

L to R: Scott Sieben (Chairman), Paul Kerr and Michael Roache

Scott Sieben has been on the ADFC Board since its inception in 2012 and accepted the Chairman's position in February 2013. He is a member of the Australian Institute of Company Directors and is studying for his Diploma of Business Management. Scott and his wife, Jade, have a dairy farm at Torrumbarry in Northern Victoria where they milk 230 cows on 180 hectares.

Paul Kerr joined ADFC as its Chief Executive Officer in September 2014 and its Interim Executive Director in September 2015. He holds a Graduate Diploma of Accounting and Finance as well as a Bachelor of Business. He is a current member of CPA Australia and the Governance Institute of Australia. Paul has extensive management experience in the dairy industry and spent 27 years at a major Australian dairy company.

Michael Roache was appointed to the ADFC Board at its inception in 2012. He has more than 40 years of hands-on experience in dairy farming and the broader agricultural industry. Michael is a third generation dairy farmer at Nalangil, Victoria, where he and his family currently run the oldest original dairy farm in the district. His farm has 550 cows and produces more than 4 million litres of milk a year.

Board Advisory Committee

L to R: Ben Bennett, Andrea Thompson, Carl Hammond and John Hinkley

The ADFC Board Advisory Committee members were selected based on their expressed interest in serving on, or for, the ADFC Board, their experience, and their commitment to ADFC's future.

All of the committee members farm in south west Victoria.

- Ben Bennett milks around 350 cows on his 300 hectare farm in Camperdown.
- Andrea Thompson has been a dairy farmer for 35 years and has a 240 hectare farm in Timboon.
- Carl Hammond has been a dairy farmer for 15 years and milks around 360 cows in Larpent.
- And John Hinkley milks 570 cows on his 320 hectare farm in Elingamite.

Directors' Report

In accordance with a resolution of Directors, the Directors of Australian Dairy Farmers Co-operative Limited ('ADFC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2015.

DIRECTORS

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

- Scott Sieben - Chairman
- Paul Kerr (appointed 7/9/15)
- Michael Roache
- John Bastian (resigned 26/5/15)
- James Geraghty (resigned 26/5/15)
- Steven Downes (resigned 26/5/15)
- Richard Gladigau (resigned 1/9/14)
- Catherine Jenkins (appointed 26/5/15 - resigned 7/9/15)

PRINCIPAL ACTIVITIES

ADFC is a Co-operative incorporated under the Co-operatives (Adoption of National Law) Act 2012 and is domiciled in Australia.

RESULTS OF OPERATIONS

Profit from continuing operations after income tax was $326,101 (2014: profit $7,167).

SUBSEQUENT EVENTS

Subsequent to year end existing supplier farmers have purchased $1 share in line with the rules of the Co-operative. At the date of the report there are 79 shareholders and 120 members.

FUTURE DEVELOPMENTS

The Co-operative expects to continue operating as an ongoing entity, it is expected new supply arrangements will be entered into and as such there will be likely developments in the Co-operatives operations.

DIVIDENDS

There were no dividends paid or declared for the year ended 30 June 2015.

Director Information

Scott Sieben - Chairman
Scott Sieben has been on the ADFC Board since its inception in 2012 and accepted the Chairman's position in February 2013. He is a member of the Australian Institute of Company Directors and is studying for his Diploma of Business Management. Scott and his wife, Jade, have a dairy farm at Torrumbarry in Northern Victoria where they milk 230 cows on 180 hectares.

Michael Roache
Michael Roache was appointed to the ADFC Board at its inception in 2012. He has more than 40 years of hands-on experience in dairy farming and the broader agricultural industry. Michael is a third generation dairy farmer at Nalangil, Victoria, where he and his family currently run the oldest original dairy farm in the district. His farm has 550 cows and produces more than 4 million litres of milk a year.

John Bastian
John Bastian has been an Independent Director on the ADFC Board since its inception in 2012 and has extensive experience in business and management consulting. He has served on a variety of boards in the agribusiness sector including grain, wine, agricultural engineering and meat businesses. He is also a current Director on the Dairy Farmers Milk Co-operative Board and has a Bachelor of Business from the University of South Australia.

James Geraghty
James Geraghty was appointed to the ADFC Board in 2012. James and his wife work on their dairy farm in Millaa Millaa on the Atherton Tablelands in Far North Queensland where they milk 230 cows and produce 1.4 million litres of milk a year. James has been the District Chairman and State Councillor for Far North Queensland for the Queensland Dairyfarmers' Organisation and has an Advanced Diploma in Agriculture. He is also a member of the Dairy Farmers Milk Co-operative Board.

Steven Downes
Steven Downes was appointed to the ADFC Board in November 2013. He is a fourth generation dairy farmer at Jamberoo on the South Coast of New South Wales and has 120 cows. He has a Bachelor of Science in Agriculture from the University of Sydney and is undertaking an Advanced Diploma in Agribusiness Management from the National Centre for Dairy Education Australia. He is also a Director on the Dairy Farmers Milk Co-operative Board.

Richard Gladigau
Richard Gladigau joined the ADFC Board in June 2013. He is a fifth generation dairy farmer from Mount Torrens in the Adelaide Hills, South Australia. Richard is a board member of the South Australia Dairyfarmers' Association and Dairy Farmers Milk Co-operative, and is an active member in a number of local organisations including the Upper Torrens Land Management Project. He also holds a Certificate in Agriculture.

Catherine Jenkins
Cath Jenkins was appointed to the ADFC Board as an Interim Director in May 2015. Cath and her husband own and operate a 250 cow dairy farm in South Purrumbete in Victoria. She has worked as a co-ordinator for the Victorian Farmers Federation's young dairy development program and has served on numerous boards and committees. Cath holds a Bachelor of Agricultural Science, qualifications in professional writing and workplace training and assessment, and has completed a rural leadership program.

Paul Kerr
Paul Kerr joined ADFC as its Chief Executive Officer in September 2014 and its Interim Executive Director in September 2015. He holds a Graduate Diploma of Accounting and Finance as well as a Bachelor of Business. He is a current member of CPA Australia and the Governance Institute of Australia. Paul has extensive management experience in the dairy industry and spent 27 years at a major Australian dairy company

Company Secretary
Greg Griffith was the Co-operative's Company Secretary at the start of the year until he resigned on 1 September 2014. Beenish Shiraz was appointed on 1 October 2014 and remains Company Secretary as at the date of this report.

Beenish Shiraz has worked in diverse industries including hospitality, automotive and agriculture and in her previous role, held the position of chief financial officer for a multinational company. Beenish specialises in strategic financial leadership in the Asia-Pacific region and the United Kingdom. Beenish holds a Bachelor of Business Administration, a Master of Commerce and a Master of Professional Accounting. She is a member of CPA Australia and Governance Institute of Australia.

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 eligible board meetings held and attended by each director during the year was:

	Board Meetings	
	A	**B**
Scott Sieben	10	10
Michael Roache	10	10
John Bastian	7	8
James Geraghty	7	8
Steven Downes	8	8
Richard Gladigau	1	1
Catherine Jenkins	2	2

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2015 is included on page 14 and forms part of the Directors' Report.

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

Scott D Sieben
Chairman

Michael Roache
Director

Melbourne, 29 October 2015

Auditor's Independence Declaration

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Auditor's Independence Declaration
To the Directors of Australian Dairy Farmers Co-operative Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Dairy Farmers Co-operative Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A.J. Pititto
Partner - Audit & Assurance

Melbourne, 29 October 2015

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Corporate Governance

The Board of Directors

Board composition

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

Audit, Finance and Governance Committee

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

Composition

The committee currently comprises:
Scott Sieben
Michael Roache
Paul Kerr

The Committee did not meet during the year.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2015	Notes	2015	2014
		$	$
Sales revenue		59,694,071	5,956,457
Other revenue	2	21,308	3,650
Total revenues		59,715,379	5,960,107
Cost of materials		(58,367,132)	(5,754,340)
General expenses	2	(325,929)	(98,270)
Finance expenses		10,152	(12,060)
Payroll expenses		(530,467)	(87,366)
Motor vehicle expenses		(30,409)	(13,894)
Depreciation and amortisation expenses		(19,822)	(17,300)
Total expenses		(59,263,607)	(5,983,230)
Profit/(loss) from continuing operations before income tax		451,772	(23,123)
Income tax benefit / (expense)	3	(125,671)	30,290
Profit/(loss) from continuing operations after income tax		326,101	7,167
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year attributable to members of the co-operative		326,101	7,167

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 2015	Notes	2015	2014
		$	$
Current assets			
Cash and cash equivalents	4	277,992	61,604
Trade and other receivables	5	5,501,417	114,885
Other Assets	6	22,775	78,937
Total current assets		5,802,184	255,426
Non-current assets			
Intangible assets	7	35,429	51,900
Plant & equipment	8	10,110	1,298
Deferred tax asset	9	30,546	30,292
Total non-current assets		76,085	83,490
Total assets		5,878,269	338,916
Current liabilities			
Trade and other payables	10	5,508,450	292,442
Provisions		21,299	-
Income tax payable	3	125,928	-
Total current liabilities		5,655,677	292,442
Non-current liabilities			
Payables	10	-	150,000
Members' capital	18	25	8
Total non-current liabilities		25	150,008
Total liabilities		5,655,702	442,450
Net assets/(liabilities)		222,567	(103,534)
Equity			
Accumulated surplus/(losses)	11	222,567	(103,534)
Total equity/(deficiency)		222,567	(103,534)

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 2015

	Accumulated surplus/(losses)	Total
	$	$
Balance at 30 June 2013*	(110,701)	(110,701)
Profit attributable to the Co-operative	7,167	7,167
Total other comprehensive loss for the year	-	-
Balance at 30 June 2014*	(103,534)	(103,534)
Profit attributable to the Co-operative	326,101	326,101
Total other comprehensive loss for the year	-	-
Balance at 30 June 2015*	222,567	222,567

* 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.

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 2015

	Notes	2015	2014
		$	$
Cash flows from operating activities			
Receipts from customers		**59,846,435**	6,552,103
Payments to suppliers and employees		**(59,312,640)**	(6,617,711)
Interest received		**(1,908)**	3,650
Net operating cash flows	16	**531,887**	(61,958)
Cash flows from investing activities			
Purchase of intangible assets		**-**	(19,200)
Purchase of plant & equipment		**(12,163)**	(1,298)
Net investing cash flows		**(12,163)**	(20,498)
Cash flows from financing activities			
Share subscriptions received		**17**	-
Repayments of loans from related parties		**(303,353)**	(50,000)
Net financing cash flows		**(303,336)**	(50,000)
Net increase/(decrease) in cash			
Net increase/(decrease) in cash for the year		**216,388**	(132,456)
Cash at the beginning of the financial year		**61,604**	194,060
Cash at the end of the year	4	**277,992**	61,604

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 is for Australian Dairy Farmers Co-operative Limited ('ADFC' or the 'Co-operative'), an entity Co-operative incorporated and domiciled in Australia.

(a) Basis of preparation

The Group has elected to adopt the Australian Accounting Standards – Reduced Disclosure Requirements (established by AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements).

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Act 2001. Australian Dairy Farmers 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.

(b) Cash and cash equivalents

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) Trade and other receivables

Trade and 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. Trade and other receivables are generally due for settlement within 30 days.

The collectability of receivables, 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) Intangible assets

Acquired intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Subsequent measurement

All intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. The following useful lives are applied:

Software: 4 years

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

(e) Trade and other payables

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) Foreign currency translation

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

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(g) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Interest revenue

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

(h) Members' share capital

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) 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 trade and other receivables or payables 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.

(j) Income tax

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Co-operative's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(k) Going Concern

At 30 June 2015 the Co-operative's total assets exceed its liabilities by $222,567 and incurred a positive net cash inflow from operations of $531,887. In the current year the Co-operative has generated operating profit and repaid the funding provided by Dairy Farmers Milk Co-operative. Based on this, the directors are of the opinion that the Co-operative will be able to continue as a going concern and accordingly, the financial statements have been prepared on this basis.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(l) Financial instruments

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

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

Classification and subsequent measurement

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

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

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

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

I. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

II. Financial liabilities

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

Derecognition

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

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(m) New accounting standards
1. Changes in accounting policies

1.1 New and revised standards are effective for annual periods beginning on or after 1 July 2014

A number of new and revised standards became effective for annual periods beginning or after July 1 2014. Information on these new standards is presented below.

i) AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets – removes the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirement applicable to when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. These new disclosures include in the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosures required by AASB 13 'Fair Value Measurements'. The application of these arrangements does not have any material impact on the disclosures on the financial statements.

ii) AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles) includes a number of amendments to various AASBs as follows:

- Amendment to AASB 2 changes the definitions of 'vesting condition' and 'service condition' that apply to share-based transactions granted after 1 July 2014.
- Amendment to AASB 8 requires disclosure of the judgement made by management in applying aggregation criteria to operating segments and clarifies that a reconciliation of the total of the reportable segments' assets to the Group's total asset should only be provided it the segment assets are regularly provided to the chief operating decision-maker.
- Amendment to AASB 124 clarifies the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity).

The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Co-operative's accounting policies and has no material impact on the disclosures or on the amounts recognised in the financial statements.

The following new accounting standards, amendments to standards and interpretations (Standards) has been issued and are effective for annual reporting periods beginning after 30 June 2015, but have not been applied in preparing this financial report. None of these are expected to have a significant effect on the financial report of the Co-operative unless otherwise noted in the Standards below. The Co-operative has not or does not plan to adopt these Standards early and the extent of their impact has not been fully determined unless otherwise noted below.

i) AASB 9 Financial Instruments (effective for annual reporting periods on or after 1 January 2018)
AASB 9 introduces new requirements for the classification and measurement and de-recognition of financial asset and financial liabilities. It aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The new standard also sets out new rules for hedge accounting and introduces expanded disclosure requirements and changes in presentation.

The Co-operative has determined that the changes in AASB 9 are not expected to materially affect the Co-operatives accounting for financial assets and financial liabilities, as none have been designated at fair value through profit or loss where the changes night have had an impact.

The Co-operative will adopt the new standard at the operative date and accordingly, its first application will be in the financial statements for the annual reporting period ending 30 June 2019.

ii) IFRS 15 Revenue from Contract with Customers (effective for annual reporting periods on or after 1 January 2017)
The revenue-related interpretations in IFRS 15 will include the establishing of a new control-based revenue recognition model, changing the basis for deciding whether revenue is to be recognised over time or at a point in time, the provision of new and more detailed guidance on specific topics (eg multiple element arrangements, variable pricing, rights of return, warranties, licensing). The new standard will also expand and improve disclosures about revenue. The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian Standard (*AASB 15 Revenue from Contracts with Customers*).

The Co-operative has not yet assessed the full impact of this standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

Notes to the Financial Statements

	2015	2014
	$	$
NOTE 2: REVENUE AND EXPENSES		
Revenue		
Interest revenue	11,599	3,650
Other Revenue	9,709	-
	21,308	3,650
Expenses		
General expenses		
Accounting and bookkeeping fees	52,854	22,585
Advertising and marketing	10,341	4,543
License fees	-	13,550
Legal fees	29,205	3,927
Software expenses	50,910	33,207
Rent and Outgoings	21,525	-
'Dairy Technical Services' Testing	64,774	-
Other expenses	96,320	20,458
Total general expenses	325,929	98,270

NOTE 3: INCOME TAX

(a) Income tax expense reconciliation

	2015	2014
Profit/(loss) from ordinary activities before tax	451,772	(23,123)
Prima facie tax (benefit) on the loss from ordinary activities calculated at 30%	135,532	(6,937)
Under/over from prior year	(9,861)	-
Temporary differences and tax losses not recognised	-	1,341
Recognition of temporary differences not recognised in prior years	-	(24,696)
Income tax Expense / (benefit)	125,671	(30,292)

(b) Income tax expense reconciliation

	2015	2014
Current tax payable	125,925	-
Changes in deferred tax assets (Note 9)	(254)	30,292
Income tax expense/(benefit)	125,671	30,292

(c) Unrecognised tax losses

	2015	2014
Tax losses not brought to account	-	1,341
	-	1,341

Notes to the Financial Statements

	2015	2014
	$	$
NOTE 4: CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	277,992	61,604
NOTE 5: TRADE AND OTHER RECEIVABLES		
Trade receivables	5,495,759	110,604
Other receivables	5,658	4,281
Total trade and other receivables	5,501,417	114,885
NOTE 6: OTHER ASSETS		
Prepayments	22,775	-
Accrued income	-	78,937
Total other assets	22,775	78,937
NOTE 7: INTANGIBLE ASSETS		
Computer software at cost		
Balance at beginning of year	51,900	50,000
(Less) amortisation	(17,473)	(17,300)
Purchase during the year	1,002	19,200
Closing balance at year end	35,429	51,900
NOTE 8: PLANT & EQUIPMENT		
Computer at cost		
Balance at beginning of year	1,298	1,298
Purchase during the year	5,997	-
(Less) depreciation	(1,504)	-
Closing balance at year end	5,791	1,298
Office equipment at cost		
Balance at beginning of year	-	-
Purchase during the year	5,164	-
(Less) depreciation	(845)	-
Closing balance at year end	4,319	-
Total plant and equipment	10,110	1,298

Notes to the Financial Statements

	2015	2014
	$	$
NOTE 9: DEFERRED TAX ASSETS		
Deferred tax assets		
Accruals	18,264	11,868
Capital expenditure	12,282	18,424
Total deferred tax assets	30,546	30,292
(a) Movements in deferred tax assets		
Balance at the beginning of the year	30,292	-
Credited to the income statement	254	30,292
Balance at the end of the year	30,546	30,292

NOTE 10: TRADE AND OTHER PAYABLES

	2015	2014
Current		
Superannuation payable	72	2,491
Trade creditors	5,461,705	11,706
Related party payable	-	153,353
Accrued expenses	44,210	115,997
Other current liabilities	2,463	8,895
Total Payables	5,508,450	292,442
Non-current		
Related party loan	-	150,000

NOTE 11: ACCUMULATED SURPLUS/(LOSSES)

	2015	2014
Balance at the beginning of the year	(103,534)	(110,701)
Current year earnings	326,101	7,167
Balance at the end of the year	222,567	(103,534)

NOTE 12: COMMITMENTS FOR EXPENDITURE

The Co-operative had $nil commitments at the end of the financial year.

NOTE 13: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Co-operative does not have any contingent liabilities or assets as at 30 June 2015.

NOTE 14: AUDITORS' REMUNERATION

	2015	2014
Amount received, or due and receivable by Grant Thornton for audit of the financial report	35,000	15,000
Amount received, or due and receivable by Grant Thornton for other services	4,500	2,395
Total auditor's remuneration	39,500	17,395

Notes to the Financial Statements

NOTE 15: 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: Scott Sieben (Chairman), Paul Kerr (appointed 7/9/15), Michael Roache, John Bastian (resigned 26/5/15), James Geraghty (resigned 26/5/15), Steven Downes (resigned 26/5/15), Richard Gladigau (resigned 1/9/14), Catherine Jenkins (Appointed 26/5/15, resigned 7/9/15).

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

Remuneration was provided to directors during the period for duties performed as directors of the Co-operative.

	2015	2014
	$	$
(c) Key management personnel compensation		
Short-term employment benefits	115,154	6,667
Post-employment benefits (superannuation)	10,940	3,333
Total key management personnel compensation	126,094	10,000

The compensation noted above comprises the annum fixed fees for all directors during the year (inclusive of superannuation).

NOTE 16: CASH FLOW RECONCILIATION

	2015	2014
Profit / (loss) attributable to members	326,101	7,167
Non-cash items in operating profit		
Depreciation and amortisation	19,822	17,300
Movement in assets and liabilities		
(Increase) / decrease in receivables	(5,307,592)	(193,584)
(Increase) / decrease in deferred tax assets	(254)	(30,289)
(Increase) / decrease in prepayments	(22,772)	-
Increase / (decrease) in payables	5,369,355	137,458
Increase / (decrease) in provisions	21,299	-
Increase / (decrease) in current tax payable	125,928	-
Net cash from operating activities	531,887	(61,958)

Notes to the Financial Statements

NOTE 17: RELATED PARTY TRANSACTIONS

Dairy Farmers Milk Co-operative is a related party as it has common directors during the year.

The related party payable of $303,353 as at 30 June 2014 was repaid in full in the current year.

NOTE 18: MEMBERS CAPITAL

	Number of Shares	Nominal Value
	#	$
Opening balance – shares of $1 each (fully paid)	8	8
Share issue	17	-
Closing Balance	25	8

Ordinary shares

Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Classification in this manner occurs because the Co-operative must forfeit and ultimately repay share capital that is forfeited under the inactive membership rules contained in the Co-operatives Act 2012 (as amended) and the Rules of the Co-operative.

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

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

Capital management

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

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

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

NOTE 19: EVENTS AFTER THE REPORTING PERIOD

Subsequent to year end existing supplier farmers have purchased $1 membership shares in line with the rules of the Co-operative. At the date of the report there are 79 shareholders.

NOTE 20: CO-OPERATIVE DETAILS

The registered office and principal place of business is:

Level 14, Australia Square,

264-278 George Street,

Sydney NSW, 2000

Directors' Declaration

The directors of the Co-operative declare that:

(a) the financial statements and notes set out on pages 16 to 28 are in accordance with the Co-operatives (Adoption of National Law) Act 2012 and the Corporations Act 2001, including:

   (i) complying with Australian Accounting Standards – Reduced Disclosure Requirements (including the Australian Accounting Interpretations), 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 2015 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.

Scott D Sieben
Chairman

Michael Roache
Director

Melbourne, 29 October 2015

Independent Auditor's Report

Grant Thornton

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Independent Auditor's Report
To the Members of Australian Dairy Farmers Co-operative Limited

We have audited the accompanying financial report of Australian Dairy Farmers Co-operative Limited (the "Co-operative"), which comprises the statement of financial position as at 30 June 2015, 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, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Co-operative.

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 - Reduced Disclosure Requirements, the Corporations Act 2001 and the Co-operatives (Adoption of National Law) Act 2012. The Directors' responsibility also includes 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Co-operative's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

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

a giving a true and fair view of the entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001.

Report on the legal and regulatory requirements

In our opinion, the financial report of Australian Dairy Farmers Co-operative Limited gives a true and fair view of the Co-operative's financial position as at 30 June 2015 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A.J. Pititto
Partner - Audit & Assurance

Melbourne, 29 October 2015

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