Dairy Farmers Milk Co-operative Annual Report 2009

YEAR ENDED 30 JUNE 2009

ABN 74 669 522 867

Dairy Farmers™

Milk Co-operative

Dairy Farmers™
Milk Co-operative

Contents

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

CHAIRMAN

Ian Zandstra

DIRECTORS

Jeff Ballon
John Bastian
John Macarthur-Stanham
Alan Mathers (Deputy Chairman)
Duncan McInnes
Trevor Middlebrook
Peter Ness
Eddie Wallwork
Michael Roache

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Grant Thornton Audit Pty Ltd

SOLICITORS

Addisons Lawyers

SECRETARY

Brett Wright (resigned 26 May 2009)
Greg Griffith (appointed 26 May 2009)

Facts at a Glance

HIGHLIGHTS

- 96% of members voting in support of the sale of DFMC's investment in Australian Co-operative Foods (ACF). Proceeds of $81.9 million and a dividend of $9.7 million received from the sale.
- Distribution of net proceeds, from the sale of DFMC's investment in ACF, to eligible members via a Special Dividend of $1.6879 per share.
- DFMC members have a representative voice through the Milk Supply Agreement (MSA), favourable milk prices and guaranteed minimum prices going forward.
- DFMC will be an ongoing entity with a sustainable capital base.

Metrics

Financial Metrics	2009	2008
Performance and Returns		
Special dividends paid to members $'000 ($1.6879 per share)	**56,934**	-
Special dividends – percentage franked	**17%**	-
DFMC administration costs (1) – cents per litre	**0.11**	0.11
Non-recurring restructure and investment advisory costs $'000	**2,174**	1,031
NPAT before dividends to members $'000	**74,429**	(827)
Dividends paid to members (2) $'000	**(56,934)**	-
NPAT (2) $'000	**17,495**	(827)
Balance Sheet		
Investment in ACF	**-**	20.0%
Net tangible assets (3) $'000	**50,100**	35,819

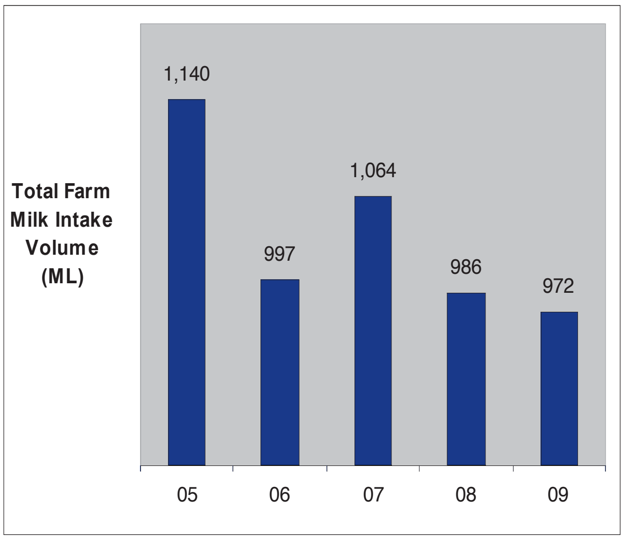
Milk Supply Metrics	2009	2008
Total milk volumes – million litres	**972**	986
Number of suppliers at year end	**821**	854
Average milk volume per supplier – million litres	**1,184**	1.154
Increase in milk price year-on-year	**12.3%**	38.0%
Suppliers under contract	**99.4%**	99.3%

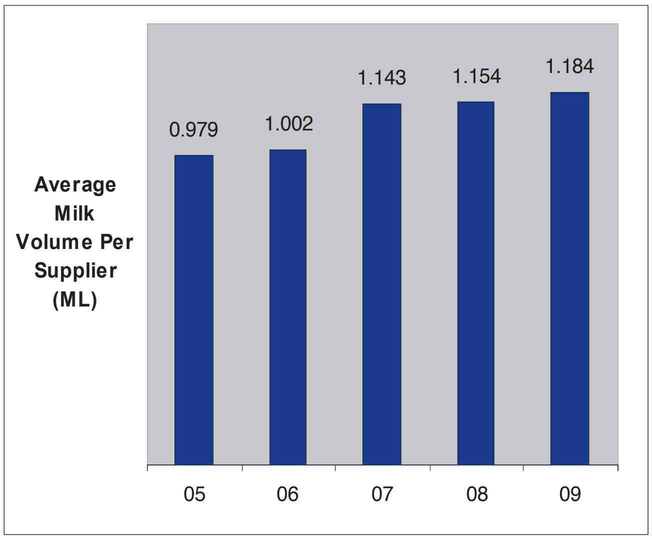
Notes

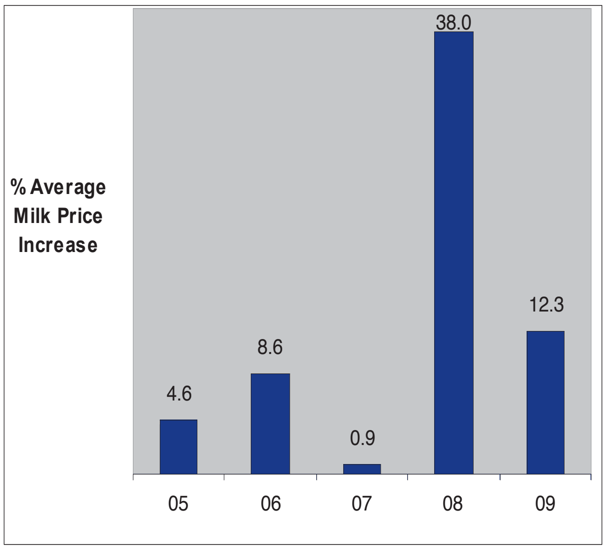
(1) DFMC administration costs (cents per litre) as a ratio to total milk volumes is calculated excluding non-recurring restructure and investment advisory costs.

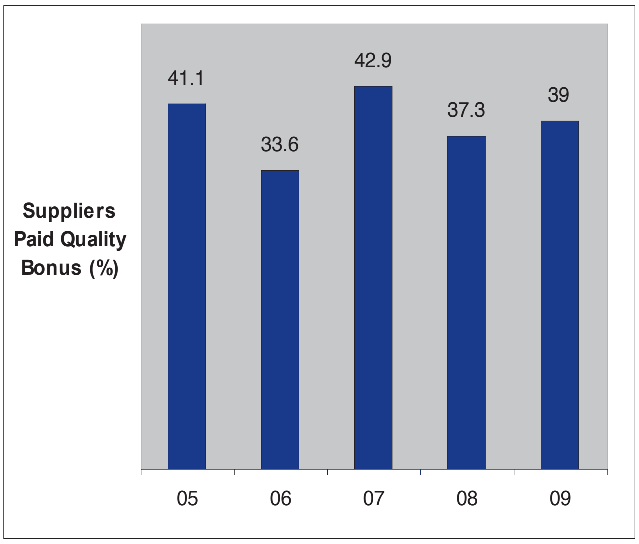
(2) Under Australian International Financial Reporting Standards ('AIFRS'), dividends paid to members on ordinary shares are included as finance costs within the income statement.

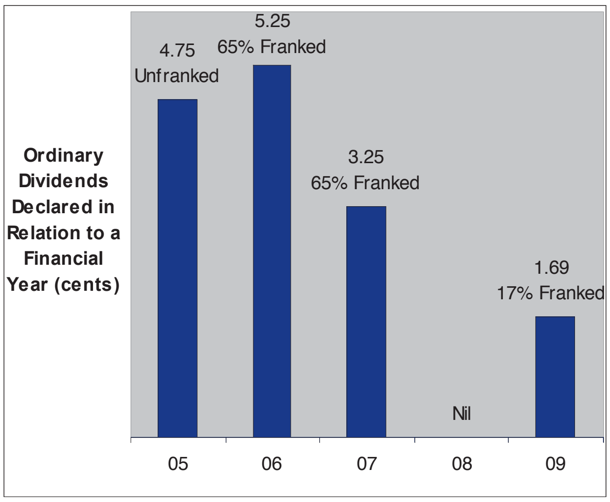
(3) Net tangible assets have been calculated by including members' share capital within equity.

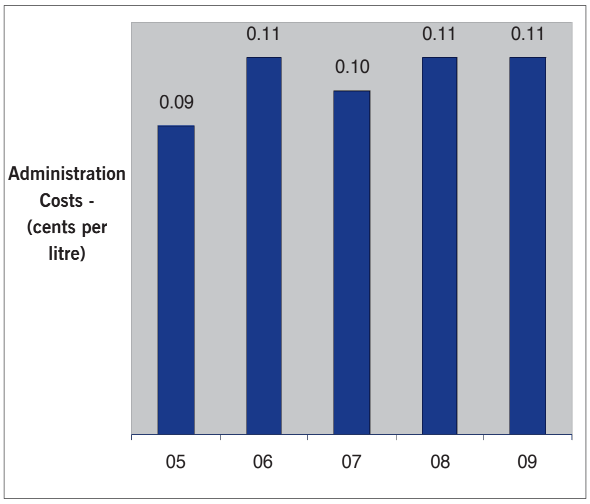

Total Farm Milk Intake Volume (ML)
1,140
997
1,064
986
972
05
06
07
08
09


Average Milk Volume Per Supplier (ML)
0.979
1.002
1.143
1.154
1.184
05
06
07
08
09


% Average Milk Price Increase
4.6
8.6
0.9
38.0
12.3
05
06
07
08
09


Suppliers Paid Quality Bonus (%)
41.1
33.6
42.9
37.3
39
05
06
07
08
09


Ordinary Dividends Declared in Relation to a Financial Year (cents)
4.75 Unfranked
5.25 65% Franked
3.25 65% Franked
Nil
1.69 17% Franked
05
06
07
08
09


Administration Costs - (cents per litre)
0.09
0.11
0.10
0.11
0.11
05
06
07
08
09

Chairman's Report

Dairy Farmers Milk Co-operative ('DFMC'), being a new entity created from the restructure of Dairy Farmers in June 2004, has had some busy foundation and establishment years, but 2008/09 has been the most intense year for the members and the Board.

This is especially so because DFMC is a business relationship and member service entity, rather than a primary milk handler or processor, very much an intermediary based on the terms and dealings of the "people" relationship aspects of business.

The Dairy Farmers sale process was such a "terms and dealings" event, a very interactive one for the members, as the owners of Dairy Farmers, and also for the DFMC Board as the custodians of further member investment in Dairy Farmers and also the guardians of the milk supply terms. This goes without saying that the Dairy Farmers Board and Management had the much more "at the coalface" involvement in, and leadership of, the transaction process and on behalf of members and directors I extend appreciation to Dairy Farmers for completing the restructure to finality and the sale to National Foods.

DFMC involvement in sale process

The DFMC Board's involvement in the evolution of the terms around the sale can be summarised as such:

- Negotiation of future milk terms, milk price and Revised Farmer Contracts.
- Successfully modeling the Milk Supply Agreement (MSA) through to ACCC authorisation, providing security for farmers as suppliers going forward and ensuring a representative DFMC.
- Favourable supplier terms (price and contracts) to encourage strong contracted milk commitment from suppliers to support the transaction.
- DFMC provided a cash advance of 2 cpl to Southern farmers in 2008/09.
- Support by National Foods for a DFMC Farm Services team.
- The DFMC Information Memorandum booklets outlining the sale terms for members and the 96% supportive members vote for the sale.
- The Board's commitment to distribute to members all of the net proceeds from the sale of DFMC's shares in Australian Co-operative Foods (ACF).
- The special dividend distribution to DFMC members of $1.6879 as the first stage distribution of the proceeds of the sale of DFMC's shares in ACF.
- The DFMC capital restructure scheme, the Scheme Booklet and the supporting vote by members.
- The share cancellation of $1 per share for 70% of member's shares of those eligible members (completed subsequent to 30 June 2009).
- Obtaining the favourable ATO Tax Ruling in respect of the distribution to members of the proceeds from the sale of DFMC's shares in ACF.
- The former members' claim.

Outcomes for DFMC Members

All-in-all the Dairy Farmers sale was rewarding for members in that;

1. DFMC will make a distribution (after finalisation of the former members' claim) of all of the net proceeds from the sale of shares held in Dairy Farmers.
2. Members have security of milk off-take and assurance of a representative voice through the MSA.
3. DFMC will be an ongoing entity with a sustainable capital base.
4. Members have favourable milk price terms through the Revised Form Contracts and guaranteed minimum prices going forward.

Moving Forward

DFMC has appointed Greg Griffith as Executive Officer (in February 2009) and has an on the ground team of three Regional Managers. This is a milestone change as it removes the Board from day to day management and operations and enables a more defined position of independence for DFMC (although National Foods have committed to the ongoing provision of administrative services as documented in the MSA).

In commenting on the successful capital distribution it should not be forgotten that not all of our members had an investment in Dairy Farmers or even a substantial investment in DFMC, yet it was the regions of North Victoria/Riverina and West Victoria that supported the sale process most strongly in the milk commitment by signing the highest percentage of current supply to Revised Form Contracts.

Seasonal Conditions and Milk Production Trends

Although there has been a break from the Australia wide drought the seasons have not been kindly to all. Most regions have had a climate friendly 2008/09, although the weather variability has typically occurred in all regions, with nothing like a traditional full year of good seasons occurring anywhere. Hardest hit again have been the irrigation areas of the Lakes and River region of South Australia, North Victoria/Riverina and the western valleys of NSW, not only because of low or nil water allocations but also because of extremely low rainfall. Fortunately hay and grain prices and availability have become more favourable.

Milk production has held up in those areas, no doubt as a result of the commitment to contracts but also underpinned by a supportive milk price. Milk production in Far North Queensland has been stable, in Northern (SEQ) has increased by 9.5% and Central (NSW) by 5.2%.

Appreciation

DFMC and the directors were highly reliant (under the terms of the MSA) upon the provision of services from Dairy Farmers and it is with great appreciation that I acknowledge the wonderful support we received from Dairy Farmers management, especially those more directly linked to our structure, Brett Wright, Keiryn Jackson, Chris Clark, Craig Hann, Nadine Rossetto, Fiona Chan, Charles Pitchai, Sam Hy and Anton Baggerman.

Thanks to DFMC directors who worked with a very cohesive, one team approach in a very challenging phase of our co-operatives evolution and also the evolution of the dairy industry. All represented the Co-operative well in their duties of consideration of the members as a group entity and voiced strongly the special circumstances and issues of their regions.

Most thanks must go to the members, who have once again lived through the issues of a diverse membership base, have widely accepted the sometime tension of democratic processes yet at the end of the day have shown strong cohesion, unity and support through the voting process. DFMC is committed to honour that support to ensure that the entity is sustainable and enduring to ensure that members have a say, have a voice and a seat at the commercial table. If farmers are not at the table they will be on the menu.

Directors' Report

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 2009.

DIRECTORS

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

- I H Zandstra (Chairman)
- J E Ballon
- J J Bastian
- D A McInnes
- J G Macarthur-Stanham
- A M Mathers (Deputy Chairman)
- T J Middlebrook
- P C Ness
- M P Roache
- E W Wallwork

PRINCIPAL ACTIVITIES

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

The principal activities of the Co-operative during the course of the financial year were to dispose of milk acquired from members to Dairy Farmers Limited ('DFL') or other members for processing and to invest in Australian Co-operative Foods ('ACF') up until implementation of the ACF Scheme. Except for the sale of DFMC's investment in ACF in November 2008 (see note 8) there were no significant changes in the nature of DFMC's activities during the year.

REVIEW OF RESULTS AND OPERATIONS

The profit after income tax for the Co-operative amounted to $17,495,470 (2008: $826,908 loss).

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

Except for the sale of DFMC's investment in ACF in November 2008 (see note 8) there were no significant changes to the state of affairs during the current financial year.

SUBSEQUENT EVENTS

On 6 July 2009 DFMC completed a compulsory share cancellation. The share cancellation involved each participating DFMC members having 7 out of 10 shares held by that DFMC member cancelled subject to the Minimum Shareholding Requirement. In total 22,381,066 shares were cancelled through this transaction. The financial impact for DFMC is a reduction to both cash and cash equivalents and members' share capital of $22,381,066. Share capital in respect of all shares cancelled was repaid to members at $1.00 per share.

In September 2009 dividends totalling $1,840,424 and interest, calculated at a weighted average interest rate from 2 February 2009 to date of payment, totalling $38,634 was paid to 31 former members. Further details of the claim by former members are detailed in note 18.

FUTURE DEVELOPMENTS

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

ENVIRONMENTAL PERFORMANCE

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

DIRECTOR INFORMATION

Ian Zandstra – Chairman

Ian Zandstra was appointed as a director of the Co-operative on 2 April 2004 and as the Co-operative's Chairman on 30 June 2004. Mr Zandstra was also a director on the ACF board from 1998 to 2004. He is currently on the Committee of the Dairy Research Foundation (Sydney University) and on the Steering Committee of the national dairy project 'Future Dairy'. Mr Zandstra holds a Bachelor of Arts.

Mr Zandstra currently runs a family farm, operated by a sharefarmer, at Pyree, New South Wales, milking around 450 cows.

Jeff Ballon

Jeff Ballon joined the board of the Co-operative on 26 April 2005. Prior to joining the board, Mr Ballon was a director of ACF from 1995 to 2003.

Mr Ballon, in partnership with his family, runs a successful dairy farm in South East Queensland and milks 150 cows. Mr Ballon also runs beef cattle, pigs and grows grain.

Mr Ballon was originally on the board of Queensco-Unity Dairyfoods Co-operative Association Limited. Mr Ballon is currently on the board of Concordia College in Toowoomba, Queensland and is now chairman of the College's legal and audit committee.

In April 2007, Mr Ballon was appointed to 'Heads Together', a government committee to promote advanced rural industry education.

John Bastian

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

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

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

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

Duncan McInnes

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

With more than 35 years experience as a dairy farmer, having originally purchased his dairy farm at age 19, Mr McInnes, in partnership with his two brothers, has increased milk production from 100,000 litres in 1980 to more than 3.3 million litres in 2009.

In November, 2007 he was appointed by the Boonah Shire Council as a member and Chairman of the Boonah and District Enterprise Board. This Board was established to plan, implement and monitor the drive to achieve a sustainable economy and community for Boonah and District, as detailed in the Boonah Shire Futures Plan. This Board has been responsible for overseeing 17 individual projects in relation to the future of the region.

John Macarthur-Stanham

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

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

Mr Macarthur-Stanham is also a director of Trust Company of Australia, a listed company where he is Vice-Chairman and a member of the Audit Committee.

Alan Mathers – Deputy Chairman

Alan Mathers was appointed as a director of the Co-operative on 30 September 2004.

Mr Mathers is currently a dairy farmer at Barham in New South Wales and has more than 35 years' experience in dairy farming. He was appointed Deputy Chairman of the Co-operative in 2005.

Through the 1980's and 1990's, Mr Mathers served on the state executive of the New South Wales Dairy Farmers Association and represented New South Wales at the Australian Dairy Farmers Federation, ADIC and New South Wales DIC.

Trevor Middlebrook

Trevor Middlebrook was appointed to the Co-operative's board on 26 April 2005. Mr Middlebrook is a third generation farmer at Gloucester, New South Wales. His dairy farm is currently milking over 350 cows producing over 3 million litres per year.

Mr Middlebrook holds a Diploma of Agriculture (TOCAL), is a director of the Gloucester Community Training Inc and also sits on the Mid North Coast Dairy Advance group where he chairs the Training Sub-Committee.

Peter Ness

Peter Ness was appointed as a director of the Co-operative on 30th September 2004. Mr Ness farms at Mt. Compass, South Australia, in partnership with his wife Wendy, and has been involved in the dairy industry for 38 years. Mr Ness is a board member and Classifier of Jersey Australia and a Vice President of the World Jersey Cattle Bureau.

Michael Roache

Michael Roache was appointed to the Co-operative's board on 29 November 2007. Mr Roache is a third generation dairy farmer at Nalangil, Victoria. His dairy farm, which he and his family purchased from his father in 1979, milked 130 cows producing 400,000 litres per year. It has now grown to 550 cows and produces around 5 million litres per year. Mr Roache is involved in the local Landcare group planting some 20,000 trees along the creek, lake frontages and across 79 paddocks.

The Roaches intend to carry on working the oldest, original dairy farm in the district, which still has the old blue stone homestead, built in the 1860's.

Edward Wallwork

Edward Wallwork was appointed to the Co-operative's board on 2 April 2004. Mr Wallwork owns a dairy farm near Millaa Millaa in Far North Queensland. An active representative of Queensland's dairy industry, Mr Wallwork has held various leadership roles within Queensland Dairyfarmers' Organisation over a 19 year period including Chairman of the Northern District Council and as State Councillor.

Mr Wallwork's industry experience also includes nine years as a director of the Tablelands Co-operative Dairy Association, including eight years as Deputy Chairman and has also acted as Chairman of District Chairs within the ACF group.

Mr Wallwork holds an Advanced Diploma of Rural Business Management and is a Fellow of the Australian Institute of Company Directors.

Mr Wallwork was also a director of ACF.

Directors' Report

COMPANY SECRETARY

Mr B Wright (B Comm, LLB, ACA) was the Co-operative's Secretary and held that position through to his resignation on 26 May 2009.

Mr G Griffith was appointed the Co-operative's Secretary on 26 May 2009. Mr Griffith previously held the position of Chief Executive Officer of Destination Melbourne and the Executive Manager of Marketing at the Victorian Farmers Federation.

INDEMNIFICATION AND INSURANCE

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

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

PROCEEDINGS ON BEHALF OF THE ENTITY

Other than the proceedings by former members (see note 18), no person has applied for leave of court to bring proceedings on behalf of the Co-operative or intervene in any proceedings to which the Co-operative is a party for the purpose of taking responsibility on behalf of the Co-operative for all or any part of those proceedings.

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

ROUNDING OF AMOUNTS

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

MEETINGS OF DIRECTORS

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

	Board Meetings		Audit, Finance and Governance		Member Services and Milk Supply	
	A	B	A	B	A	B
Ian H Zandstra	17	17	-	-	-	-
Jeff E Ballon*	16	17	2	2	4	4
John J Bastian	16	17	6	6	-	-
John G Macarthur-Stanham	14	17	6	6	-	-
Alan M Mathers	17	17	-	-	6	6
Duncan A McInnes*	16	17	4	4	2	2
Trevor J Middlebrook	17	17	-	-	6	6
Peter C Ness*	14	17	4	4	-	-
Michael P Roache*	15	17	2	2	4	4
Edward W Wallwork	17	17	-	-	6	6

* During the financial year members of the Audit, Finance and Governance Committee changed. Therefore not all members were entitled to attend all meetings held during the financial year.

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, monitoring DFMC's investment in ACF until the sale to National Foods Limited, industry meetings, corporate governance and communications meetings including ward meetings. The chairman of the board attends committee meetings by invitation.

Directors, left to right: Duncan McInnes, Michael Roache, Edward Wallwork, Jeff Ballon,
Peter Ness, Ian Zandstra, John Macarthur-Stanham, Trevor Middlebrook, Alan Mathers, John Bastian

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 as required by section 307C of the *Corporations Act 2001* is set out on the following page.

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

I H Zandstra
Chairman

J J Bastian
Director

Sydney, 22 September 2009

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Dairy Farmers Milk Co-operative Pty Limited for the year ended 30 June 2009, 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 Audit Pty Ltd.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A J Archer

A J Archer
Director - Audit & Assurance Services

Sydney, 22 September 2009

Corporate Governance

THE BOARD OF DIRECTORS

Board composition

The board comprises 10 directors being 9 farmer directors and one independent director.

The chairman is elected by the board. 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 committee currently comprises:

John Bastian (Chairman)

Jeff Ballon

John Macarthur-Stanham

Michael Roache

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 the following board meeting.

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 to be appointed as directors any ex-audit partners.

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

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

MEMBER SERVICES AND MILK SUPPLY COMMITTEE

Composition

The committee currently comprises:

Alan Mathers (Chairman)

Jeff Ballon

Peter Ness

Duncan McInnes

Trevor Middlebrook

Eddie Wallwork

Responsibilities

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

The Chairman attends all committees by invitation.

COMMUNICATION WITH MEMBERS

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

- This annual report being distributed to all members.
- The annual general meeting, which members are encouraged to attend.
- The national convention which is held each year.
- Holding Ward meetings with farmer members throughout the Co-operative's supply regions.
- Holding regional meetings with farmer members through the Co-operative's supply regions.
- *Dairy Market Report* which is circulated to all members on a monthly basis.
- *DFMC Dairy Reporter* which is circulated to members via email on a weekly basis.
- The *Chairman's Report* which is circulated to all members on a monthly basis.
- www.dfmc.org.au

Income Statement

For the year ended 30 June 2009	Notes	2009 $'000	2008 $'000
Sales revenue	2	**526,670**	466,631
Cost of sales		**(526,670)**	(466,631)
Gross profit		**-**	-
Aggregation fee revenue	2	**1,100**	1,100
Administration expenses		**(1,100)**	(1,052)
Restructure and investment advisory costs	3	**(2,174)**	(1,031)
Net administration result		**(2,174)**	(983)
Investment revenue			
Dividend revenue – ACF Scheme	2	**9,680**	-
Interest revenue	2	**1,283**	51
Finance costs			
Members' share capital payments* - ordinary	3	**(56,934)**	-
Financial institution and others	3	**(8)**	-
Other income			
Profit on sale of available for sale financial assets	2	**65,709**	-
Net investment and financing result		**19,730**	51
Profit/(Loss) from continuing operations before income tax		**17,556**	(932)
Income tax (expense)/benefit	4	**(61)**	105
Profit/(Loss) attributable to members of the Co-operative	16	**17,495**	(827)

* Note that in accordance with AIFRS, dividends payable to members on their ordinary shares are included as finance costs within the income statement. Accordingly, the profit attributable to members of the Co-operative (as noted above) is presented after deducting such finance costs. Refer to notes 1(j), 3, 5 and 15.

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

Balance Sheet

As at 30 June 2009	Notes	2009 $'000	2008 $'000
Current assets			
Cash and cash equivalents	6	49,240	221
Receivables	7	2,116	15,279
Total current assets		51,356	15,500
Non-current assets			
Receivables	7	-	6,392
Available for sale financial assets	8	-	17,016
Property, plant and equipment	9	13	10
Deferred tax assets	10	139	201
Total non-current assets		152	23,619
Total assets		51,508	39,119
Current liabilities			
Payables	11	1,403	574
Borrowings	12	-	2,725
Provisions	13	4	-
Total current liabilities		1,407	3,299
Non-current liabilities			
Provisions	13	1	-
Deferred tax liabilities	14	-	1
Members' share capital*	15	32,589	35,803
Total non-current liabilities		32,590	35,804
Total liabilities		33,997	39,103
Net assets		17,511	16
Equity			
Retained profits	16	17,511	16
Total equity		17,511	16

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets is presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(j), 3, 5 and 15.

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

Statement of Changes in Equity

For the year ended 30 June 2009	2009 $'000	2008 $'000
Total equity at the beginning of the year*	16	843
Profit/(Loss) for the year	17,495	(827)
Total equity at the end of the year*	17,511	16

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, total equity is presented excluding members' share capital. Changes in members' share capital are disclosed in note 15. Refer also to notes 1(j), 3, 5 and 15.

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

Cash Flow Statement

For the year ended 30 June 2009	Notes	2009 $'000	2008 $'000
Cash flows from operating activities			
Receipts from customers		578,699	514,047
Payments to suppliers, employees and directors		(581,589)	(514,269)
Dividends received – ACF Scheme		9,680	-
Interest received		1,283	51
Borrowing costs		(8)	-
Income tax received		22	5
Net operating cash flows	25	8,087	(166)
Cash flows from investing activities			
Payments for property, plant and equipment		(6)	-
Proceeds from sale of investment in DFL		81,910	-
Subordinated loan advanced		-	(1,356)
Share forfeit loan repayments from DFL		11,204	-
Subordinated loan repayments from DFL		11,117	5,273
Loans advanced to farmers		(4,420)	-
Loans repaid from farmers		4,000	-
Net investing cash flows		103,805	3,917
Cash flows from financing activities			
Proceeds from issue of ordinary shares		68	1,756
Payment for ordinary shares repurchased		-	(112)
Repayment of share forfeit loans		(6,007)	(5,275)
Dividends paid - ordinary shares		(56,934)	-
Net financing cash flows		(62,873)	(3,631)
Net increase in cash		49,019	120
Cash at the beginning of the financial year		221	101
Cash at the end of the year	6	49,240	221

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

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the *Co-operatives Act 1992 (as amended)* and the applicable sections of the *Corporations Act 2001*.

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(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) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

(ii) Other receivables

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

(iii) Farmer loans

` Farmer loans are recognised at fair value, which is the principal amount in the loan agreement, and are subsequently measured at amortised cost less provision for impairment.

(iv) Share forfeit loan to DFL

Share forfeit loans are initially recognised at fair value, which corresponds to the amount lent and are subsequently measured at amortised cost less provision for impairment.

(v) Subordinated loan to DFL

Subordinated loans are initially recognised at fair value, which corresponds to the amount lent and are subsequently measured at amortised cost less provision for impairment.

(vi) Collectibility

The collectibility of trade receivables, 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) Available for sale financial assets (note 8)

In the previous financial year, the investment in DFL has been recognised at cost which was $1.00 per share, because the investment was an equity instrument that did not have a quoted market price in an active market and where fair value could not be reliably determined. See also note 1(t).

(e) Property, plant and equipment (note 9)

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

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

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

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

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

(f) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Payables (note 11)

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.

(h) Borrowings (note 12)

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.

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.

(i) Employee benefits (note 13)

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

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

(iii) Retirement benefit obligations

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

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Co-operative recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(j) Members' share capital (note 15)

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.

(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 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 collectibility of the related receivable is probable.

(ii) Aggregation fee revenue

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

(iii) Dividends and interest

Dividends and interest on loans are recognised as revenue when the right to receive payment is established.

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Other interest revenue

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

(l) Finance costs (notes 3 and 5)

(i) Dividend rate

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

(ii) Other finance costs

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

(m) Income tax (notes 4, 10 and 14)

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

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

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

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

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

(n) Reporting period

The financial report has been prepared for the financial year ended 30 June 2009.

(o) Segment Reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when the products or services provided within a particular economic environment are subject to risks and returns that are different from those of segments operating in other economic environments.

(p) Foreign currency translation

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

(q) 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.

(r) 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.

(s) New accounting standards

Certain new accounting standards and Urgent Issues Group Interpretations have been published that are not yet mandatory for the current financial statements.

The Co-operative's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

commencing on or after 1 January 2009. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements. The Co-operative will apply the revised standard from 1 July 2009.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Co-operative.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

The revised AASB 101 was issued in September 2007 and is applicable to annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made prior period adjustments or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Co-operative will apply the amended standard from 1 July 2009.

(iv) AASB 2008-8 Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009)

AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Co-operative will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Co-operative's financial statements.

(v) AASB Interpretation 17 Distribution of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17

AASB-I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statement on distribution. The interpretation further clarifies when a liability for the dividend must be recognised and that it is also measured at fair value. Historically the Co-operative has not issued dividends by distributing non-cash assets. Therefore it is not expected to have a material impact on the Co-operative's financial statements. The Co-operative will apply the interpretation prospectively from 1 July 2009 if such circumstances are to arise in paying any future dividends.

(vi) AASB 2008-2 Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132, AASB 139 and Interpretation 2]

The amendments made by AASB 2008-2 in March 2008 relate to puttable financial instruments and instruments that require the entity to pay the holder a pro-rata share of the entity's net assets on liquidation. The Directors consider that AASB 2008-2 will not impact the current classification of members share capital as liabilities on the balance sheet.

(vii) AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

AASB 2007-8 consequentially amends a number of AASB's as a result of the reissue of AASB 101. For example, where relevant in Australian Standards (including Interpretations), the term 'general purpose financial report' will be changed to 'general purpose financial statement' and the term 'financial report' to 'financial statement'. The changes do not affect recognition or measurement criteria and as a result the changes are not expected to have any impact on the Co-operative's reported financial position and performance. The changes will be effective for the 30 June 2010 financial report.

(viii) AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101

AASB 2007-10 makes a number of consequential amendments to a number of accounting standards

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

arising from the revision of AASB 101 in September 2007. The changes are largely to terminology to better align with IFRS terminology. For example, where relevant in Australian Standards (including Interpretations), the term 'general purpose financial report' will be changed to 'general purpose financial statement' and the term 'financial report' to 'financial statement'. The changes do not affect recognition or measurement criteria and as a result the changes are not expected to have any impact on the Co-operative's reported financial position and performance. The changes will be effective for the 30 June 2010 financial report.

(ix) AASB 3 Business Combinations (March 2008) – "AASB3R"

AASB 3R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and contingent considerations.

AASB 3R also replace the term "Minority Interest" with "Non-controlling Interest". AASB 3R is effective for annual reporting periods beginning on or after 1 July 2009. AASB 3R has not been early adopted as it is not applicable to the current financial year. The Co-operative will apply AASB 3R in the event it become a party to a business combination in any future reporting years.

(t) Significant judgements in applying accounting policies

In the prior financial year and up until the ACF scheme implementation, the Co-operative recorded its investment in DFL at cost which is $1.00 per share, because the investment was an equity investment that did not have a quoted price in an active market and where fair value could not be reliably determined as disclosed in note 27(g).

NOTE 2: REVENUE AND OTHER INCOME

	2009 $'000	2008 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	**517,189**	466,631
Sales revenue – sale of goods to other external parties	**9,481**	-
	526,670	466,631
Other administration and investment revenue		
Aggregation fee revenue (b)	**1,100**	1,100
Dividend revenue – ACF Scheme (c)	**9,680**	-
Interest revenue – financial institutions and other	**1,283**	51
	12,063	1,151
Total revenue from continuing operations	**538,733**	467,782
Other income		
Profit on sale of available for sale financial assets (d)	**65,709**	-

(a) Sale of goods to DFL

DFMC and DFL have entered into a ten year rolling Milk Supply Agreement, which presently expires in June 2017, so that DFMC can secure a long term dependable outlet for milk at a commercial price. Prior to the implementation of the ACF Scheme, DFMC and ACF (now DFL) jointly sought authorisation from the ACCC regarding aspects of the Milk Supply Agreement to ensure compliance with the Trade Practices Act. The ACCC authorised aspects of the Milk Supply Agreement for which approval was sought for a period of 5 years from the date the transaction was completed.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, while DFMC derives at least 90% of its revenues from DFL, DFL must pay the Aggregation Fee to DFMC to cover the expenses incurred by DFMC in connection with the consolidation or aggregation of the milk supply for on sale to DFL. The Aggregation Fee for the year ended 30 June 2009 was agreed at $1.1 million.

(c) Dividend revenue

During the year ended 30 June 2009 DFMC received special dividends totalling $9.68 million arising from DFMC's investment in DFL.

(d) Profit on sale of investments

On 26 November 2008 DFMC's investment in DFL was disposed (see note 8). Proceeds received totalled $81.91 million.

Notes to the Financial Statements

NOTE 3: EXPENSES	2009 $'000	2008 $'000
Profit before income tax includes the following specific expenses		
Finance costs		
Members' share capital payments (note 5)		
Special dividends	56,934	-
Financial institutions and others	8	-
	56,942	-
Restructure and investment advisory costs*	2,174	1,031
Depreciation – plant and equipment	7	8
Loss on sale of property, plant and equipment	1	3
Employee and director benefits expense	432	371
Defined contribution superannuation expense	39	32

* The restructure and investment advisory costs relate to legal, corporate advisory and tax advice obtained in respect of both the 20% limit to the Co-operative's investment in DFL (see note 8) and in connection with the implementation of the ACF Scheme (see note 8) and the compulsory share cancellation (see note 19(a)).

NOTE 4: INCOME TAX	2009 $'000	2008 $'000
(a) Income tax expense reconciliation		
Profit/(Loss) before income tax	17,556	(932)
Income tax expense calculated at 30% (2008: 30%)	5,267	(280)
Tax effect of amounts not deductible or (taxable)		
Non-deductible advisory fees	373	175
Franked amount of members' share capital payments	2,876	-
Franked dividend revenue	(2,904)	-
Capital loss – forfeiture of DFL shares (note 8)	(267)	(2,668)
Capital loss– sale of available for sale financial assets (note 8)	(5,290)	-
	55	(2,773)
Recognition of prior period capital losses not recognised in prior years	(3,572)	-
Current period tax losses and temporary differences not recognised	3,382	2,668
Prior period tax losses and temporary differences derecognised	46	-
Under provided in prior years	150	-
Income tax expense/(benefit)	61	(105)
(b) Income tax expense analysis		
Deferred tax		
Changes in deferred tax assets (note 10)	62	(120)
Changes in deferred tax liabilities (note 14)	(1)	-
	61	(120)
Current tax	-	15
Income tax expense/(benefit)	61	(105)
(c) Unrecognised tax losses		
Unused tax losses for which no deferred tax asset has been recognised	11,427	-
Unused capital tax losses for which no deferred tax asset has been recognised	-	8,893
Potential tax benefit at 30%	3,428	2,668

Notes to the Financial Statements

NOTE 5: DIVIDENDS ON MEMBERS' SHARE CAPITAL

In accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability and dividends payable to members on their ordinary shares are included as finance costs within the income statement. The amount of these 'dividends' on ordinary shares are disclosed in note 3 and as follows:

	2009	2008
(a) Dividends		
(i) Special dividends – recognised and paid during the financial year		
Payment date	17 Dec 2008	-
Dividend per share	$1.6879	-
Percent franked	17%	-
Paid in cash $'000	56,934	-
Total ordinary dividends paid during the financial year	56,934	-

	2009 $'000	2008 $'000
(b) Franking credits		
Franking credits available for subsequent financial years	495	456

The above franking account balance has been adjusted for:

(i) franking credits/(debits) that will arise from the payment/(refund) of income tax payable/(receivable) as at the end of the financial year.

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

(c) Interest payable at dividend rate

In addition to the above, and prior to implementation of the ACF Scheme, interest was payable on share forfeit loans at the rate of ordinary dividend payable on ordinary shares, as disclosed in note 1f(i) and 12. No interest has been paid on share forfeit loans during the financial year ended 30 June 2009 or the previous financial year.

NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents (per Balance Sheet and Cash Flow Statement)	49,240	221

Cash and cash equivalents represent cash on deposit at call with a financial institution which derived interest at a floating rate of between 3.25% and 7.4% (2008: 6.7% and 7.0%).

NOTE 7: RECEIVABLES

	2009 $'000	2008 $'000
Current		
Share forfeit loan to DFL (a)	-	10,388
Subordinated loan to DFL (b)	-	4,725
Farmer loans (c)	**420**	-
Other receivables	**1,653**	94
Income tax receivable	-	22
Prepayments	**43**	50
	2,116	15,279
Non-current		
Subordinated loan to DFL (a)	-	6,392

(a) Share forfeit loan to DFL

On 26 November 2008 the ACF Scheme was implemented and the share forfeit loan was repaid by DFL. In the prior financial year the Share Forefeit Loan receivable from DFL arose as a result of the forfeiture of shares held by DFMC in excess of 20% as indicated in note 8(a).

(b) Subordinated loan to DFL

Amounts collected from milk payment deductions by DFMC under its Share Acquisition Program (currently suspended), which DFMC considered to be surplus to its needs, were lent to DFL under the terms of a loan agreement. In the prior financial year DFMC called for repayment of the loan to fund the payment of forfeited shares. Interest was receivable within 14 days of each declaration of an ordinary dividend by DFL at the rate of the dividend as if the outstanding balance were ordinary shares.

On 25 August 2008, the subordinated loan agreement between DFMC and DFL was terminated and the loan was repaid in full by DFL in cash.

(c) Farmer loans

Farmer loans are repaid on a monthly basis via deductions from monthly milk payments. The loan was settled in July 2009. DFMC does not hold collateral or any other security over the balance of farmer loans.

NOTE 8: AVAILABLE FOR SALE FINANCIAL ASSETS

Unlisted equity securities at cost – Investment in DFL (a)	-	17,016

(a) Investment in DFL (ACF)

The investment in DFL was disposed of on 26 November 2008 after implementation of the ACF Scheme. DFMC received proceeds of $81.91 million (see note 2(d)) and a dividend of $9.68 million (see note 2(c)) from the sale. From the proceeds of sale a Special Dividend of $1.6879 per share was paid to eligible members (see note 3). Prior to the implementation date, the investment comprised a 20% (2008: 20%) ownership interest in DFL. The principal activities of DFL include the processing, manufacturing, packaging, distribution and marketing of milk and dairy products. The Supreme Court of New South Wales ruled in accordance with the *Co-operatives Act 1992 (as amended)* that DFMC was prohibited from holding more than 20% of the shares in DFL. During the financial year ended 30 June 2009, and prior to the implementation date, 0.815 million shares were forfeited by DFL in accordance with these requirements. The amount receivable by DFMC at the end of the prior financial year that arose as a result of this forfeiture is disclosed in note 7(a).

Notes to the Financial Statements

NOTE 9: PROPERTY, PLANT AND EQUIPMENT	2009 $'000	2008 $'000
Plant and equipment	**33**	25
At cost	**(20)**	(15)
Accumulated depreciation	**13**	10
(a) Movement reconciliation		
Carrying amount at the beginning of the year	**10**	21
Additions	**11**	-
Disposals	**(1)**	(3)
Depreciation	**(7)**	(8)
Carrying amount at the end of the year	**13**	10

NOTE 10: DEFERRED TAX ASSETS	2009 $'000	2008 $'000
Amounts recognised in profit or loss		
Accruals	**8**	7
Consulting and advisory costs	**131**	119
Tax losses	**-**	75
Total deferred tax assets	**139**	201
(a) Movements		
Balance at the beginning of the year	**201**	96
Credited to the income statement	**133**	120
(Under)/Over in prior year	**(149)**	-
Tax losses derecognised during the current year	**(46)**	(15)
Balance at the end of the year	**139**	201
(b) Timing of recovery		
To be recovered		
Within 12 months	**8**	75
After 12 months	**131**	126
	139	201

NOTE 11: PAYABLES	2009 $'000	2008 $'000
Trade creditors and accruals	1,403	574

NOTE 12: BORROWINGS

Share forfeit loans (a)	-	2,725

(a) Share forfeit loans

Under the *Co-operatives Act 1992 (as amended)* and the Rules of the Co-operative, the membership of an inactive member is cancelled and the member's shares are forfeited contemporaneously after one year of continuous inactivity (i.e. non supply of raw milk). Upon forfeiture, the amount paid up in respect of the forfeited share is transferred into the share forfeit loan account. Previously the Co-operative repaid share forfeit loans within 12 months of forfeiture. In November 2008 members were notified that the Co-operative would, until otherwise notified, repay share forfeit loans as soon as possible after each member's membership has been cancelled and shares forfeited. No interest has been paid on share forfeit loans during the financial year ended 30 June 2009 or the previous financial year.

Upon forfeiture, former members are attributed certain statutory rights under Division 5 Part 6 of the *Co-operatives Act 1992 (as amended)*. In broad terms, these statutory rights allow the former member to participate in various trigger events, including conversion to a company, for a period of five years after forfeiture. In order to participate, the former member must re-subscribe for ordinary shares at $1.00 each either by applying share forfeit loan funds or by paying cash.

NOTE 13: PROVISIONS

Current		
Employee benefits	4	-
Non-current		
Employee benefits	1	-

Notes to the Financial Statements

NOTE 14: DEFERRED TAX LIABILITIES	2009 $'000	2008 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	-	1
Total deferred tax liabilities	-	1
(a) Movements		
Balance at the beginning of the year	1	1
(Credited)/charged to the income statement	(1)	-
Balance at the end of the year	-	1
(b) Timing of settlement		
To be settled	-	-
Within 12 months	-	1
After 12 months	-	1

NOTE 15: MEMBERS' SHARE CAPITAL	Number of Shares 2009 #	Number of Shares 2008 #	Nominal Value 2009 $'000	Nominal Value 2008 $'000
Opening balance – shares of $1 each (fully paid)	**35,797,194**	36,827,321	**35,797**	36,827
Shares issued				
Cash	**26,255**	21,169	**26**	21
Milk payment deductions (a)	**-**	1,734,427	**-**	1,734
Shares repurchased – cash (b)	**-**	(112,011)	**-**	(112)
Shares forfeited (c)	**(3,282,327)**	(2,673,712)	**(3,282)**	(2,673)
Closing balance – shares of $1 each (fully paid)	**32,541,122**	35,797,194	**32,541**	35,797
Unallocated members' contribution (d)			**48**	6
			32,589	35,803

Ordinary shares

Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Classification in this manner occurs because the Co-operative must forfeit and ultimately repay share capital that is forfeited under the inactive membership rules contained in the *Co-operatives Act 1992 (as amended)* and the Rules of the Co-operative.

Ordinary shares entitle the holder to participate in dividends of the Co-operative in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each shareholder is entitled to one vote.

(a) Milk payment deductions

Under the terms of its Share Acquisition Program (currently suspended by the Board), 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 repurchased

Under the Co-operatives Act *1992 (as amended)* and the Rules of the Co-operative, the Co-operative may, at the request of a member and subject to the legislative restrictions contained in the Act, purchase any shares from a member. The board has adopted policies that limit the extent to which purchases of members' shares will occur.

(c) Shares forfeited

Under the Co-operatives Act *1992 (as amended)* and the Rules of the Co-operative, the membership of an inactive member is cancelled and the members' shares are forfeited contemporaneously after one year of continuous inactivity (i.e. non supply of raw milk). The amount payable at the end of the year is disclosed in note 12.

(d) Unallocated members' contributions

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

(e) Compulsory share cancellation by court approved scheme of arrangement

On 6 July 2009 DFMC completed a compulsory share cancellation. The financial impact for DFMC is a reduction to both cash and cash equivalents and members' share capital of $22,381,066. Share capital in respect of all shares cancelled was repaid to members at $1.00 per share. See further details disclosed in note 19(a).

Notes to the Financial Statements

NOTE 16: RETAINED PROFITS	2009 $'000	2008 $'000
Balance at the beginning of the year	**16**	843
Profit/(Loss) attributable to members	**17,495**	(827)
Balance at the end of the year	**17,511**	16

NOTE 17: COMMITMENTS FOR EXPENDITURE

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

NOTE 18: CONTINGENT LIABILITIES

Subsequent to the implementation of the ACF Scheme, 31 former members claimed to be entitled to participate in the Special Dividend declared at the 2008 AGM. In response, the DFMC board decided to reduce the Special Dividend paid to members on 17 December 2008 to $1.6879 per share from the original proposal of $1.8671 per share pending resolution of the matter.

In February 2009 the Co-operatives Council (by majority) ordered that each of the 31 former members be reinstated as a DFMC member effective from the date that the member's previous shareholding was forfeited. In addition each former member applicant will be eligible to participate in the Special Dividend declared by DFMC in December 2008 on the basis of their shareholding at the date of their change of status to that of inactive member. The Co-operatives Council also ordered their membership to be cancelled 24 hours after payment to them of the Special Dividend.

DFMC appealed against the Co-operatives Council's decision to the NSW Supreme Court. Judgment was handed down on 27 August 2009. DFMC's appeal was unsuccessful and the majority decision of the Co-operatives Council stands. This means the 31 former members were entitled to be reinstated as members of DFMC and participate in the Special Dividend paid on 17 December 2008.

In September 2009 DFMC paid dividends totalling $1,840,424 and interest, calculated at a weighted average interest rate from 2 February 2009 to date of payment, totalling $38,634 to the 31 former members.

It is now likely that other former members, who were awaiting the return of their capital in November 2008, will lodge a claim for reinstatement as DFMC members with the Co-operatives Council. The Board's position regarding reinstatement of former members has not changed. The Board does not believe the Co-operatives Council should exercise its discretion to reinstate these former members and continues to believe the decision of the minority of the Co-operatives Council is the better view.

If the other former members who were awaiting the return of their capital in November 2008 lodge a claim and are successful, a further amount of $4,202,576, excluding interest, will be paid out by DFMC. These funds were retained by DFMC through the reduced dividend in December 2008 and accordingly there will be no material adverse financial impact on DFMC as a result of this matter.

NOTE 19: SUBSEQUENT EVENTS

(a) Compulsory share cancellation by court approved scheme of arrangement

On 6 July 2009 DFMC completed a compulsory share cancellation. The share cancellation involved each participating DFMC members having 7 out of 10 shares held by that DFMC member cancelled subject to the Minimum Shareholding Requirement. In total 22,381,066 shares were cancelled through this transaction. The financial impact for DFMC is a reduction to both cash and cash equivalents and members' share capital of $22,381,066. Share capital in respect of all shares cancelled was repaid to members at $1.00 per share.

(b) Former members' claim

In September 2009 dividends totalling $1,840,424 and interest, calculated at a weighted average interest rate from 2 February 2009 to date of payment, totalling $38,634 was paid to 31 former members. Further details of the claim by former members are detailed in note 18.

NOTE 20: AUDITORS' REMUNERATION	2009 $	2008 $
Amounts received by PricewaterhouseCoopers for the audit of the financial report.	-	20,000
Amounts received by PricewaterhouseCoopers for the audit of the financial report for the audit of the financial period to 28 February 2009 in connection with the share cancellation scheme.	24,000	-
Amounts received by Ernst & Young for other services.	560,190	158,600
Amount received, or due and receivable by Grant Thornton for audit of the financial report.	12,000	-
Amount received, or due and receivable by Grant Thornton for other services.	6,000	-

Notes to the Financial Statements

NOTE 21: 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:

I H Zandstra (Chairman), J E Ballon, J J Bastian, D A McInnes, J G Macarthur-Stanham, A M Mathers (Deputy Chairman), T J Middlebrook, P C Ness, M P Roache and E W Wallwork.

(b) Executive Officer

DFMC appointed an Executive Officer during the year ended 30 June 2009. The compensation of the Executive Officer is included within the key management personnel compensation disclosed in note 21(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. Base fee levels per director have not changed since the first annual general meeting. At the 2007 annual general meeting the members approved the payment of $7,000 per annum to the chairperson of each board sub-committee. 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.

Executive Officer remuneration was established considering reasonable market remuneration for the role and responsibilities.

(d) Key management personnel compensation

	2009 $	2008 $
Short-term employment benefits	432,118	370,510
Post-employment benefits (superannuation)	39,440	32,494
Total key management personnel compensation	471,558	403,004

The compensation noted above comprises the following per annum fixed directors' fees (inclusive of superannuation), which applied throughout all of the current and previous financial years with the exception of the sub committee chairperson's fees as described in note 21(c). The compensation noted above also includes the Executive Officer.

Director fees for the current financial year are:

	Number of Directors	Per Annum Fee $
Chairman	1	110,000
Other directors	9	33,000

NOTE 21: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(e) Other transactions with key management personnel

(i) Farmer directors

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

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

(ii) Directors generally

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

NOTE 22: RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY

DFL is not considered to be a related party as defined in the relevant Accounting Standards because, even prior to the implementation of the ACF Scheme, DFMC has not had control or significant influence over DFL. Nevertheless, 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).
- Dividend and Aggregation Fee revenue derived from DFL (note 2).
- Subordinated loan and share forfeit loan to DFL (note 7).
- Investment in DFL (note 8).

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $100,000 (2008: $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.

In the previous financial year and up until completion of the ACF Scheme DFMC may have nominated two farmer directors onto the DFL board subject to DFL member approval. During the currency of the Milk Supply Agreement and up until completion of the ACF Scheme, DFMC may have at any time removed a majority of the directors of the DFL board causing casual vacancies. At a meeting of the members of DFL, DFMC was entitled to one vote.

NOTE 23: SEGMENT INFORMATION

The Co-operative operates in one primary reporting business segment, being the supply of dairy products and in one secondary reporting geographical segment, being the domestic Australian market.

Notes to the Financial Statements

NOTE 24: FINANCIAL FACILITIES

The Co-operative currently operates without the need for bank finance facilities. A fixed amount of annual funding is made available to DFMC to cover its administrative costs through the Aggregation Fee revenue from DFL as indicated in note 2(b). During the year DFMC received $9.68 million of dividend income from DFL and $81.91 million proceeds on sale of DFMC's investment in DFL. In addition, in the prior financial year the Co-operative called for repayment of the subordinated loan to fund the payment of forfeited shares as indicated in note 7(b). Further liquidity information is provided in note 27(d).

NOTE 25: CASH FLOW RECONCILIATION

	2009 $'000	2008 $'000
Profit/(Loss) attributable to members	**17,495**	(827)
Depreciation expense	**7**	8
Loss on disposal of property, plant and equipment	**1**	3
Finance costs – members' share capital payments	**56,934**	-
Profit on sale of available for sale financial assets	**(65,709)**	-
Changes in operating assets and liabilities		
(Increase)/decrease in net working capital	**(724)**	750
Decrease/(increase) in net tax balances	**83**	(100)
Net cash inflow/(outflow) from operating activities	**8,087**	(166)

NOTE 26: NON-CASH FINANCING AND INVESTING ACTIVITIES

Shares forfeited during the year totalling $3.282 million (2008: $2.674 million) were transferred from members' share capital to borrowings.

NOTE 27: FINANCIAL INSTRUMENT AND RISK DISCLOSURES

(a) Risk management

The Co-operative's activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk and interest rate risk. The Co-operative's overall risk management program seeks to minimise potential adverse effects on the financial performance or position of the Co-operative.

Financial risk management is carried out by the audit, finance and governance committee under policies approved by the board of directors. External advice may be sought on strategic issues as deemed appropriate by either the audit, finance and governance committee or board of directors.

(b) Market risk

The Co-operative is exposed to market risk that arises when the fair value of future cash flows of a financial instrument fluctuates because of changes in market prices that are in turn affected by market interest rates or other factors specific to the financial instrument, its issuer or similar instruments. The Co-operative was exposed to market risk in relation to the following material financial assets prior to their sale during the year:

	2009 $'000	2008 $'000
Subordinated loan to DFL (note 7)	-	11,117
Share forfeit loan to DFL (note 7)	-	10,388
Investment in DFL (note 8)	-	17,016
Carrying value at the end of the year	-	38,521

(i) Financial returns

The Co-operative derives interest revenue on cash and cash equivalent balances (see note 6 and note 27 (e)). In the prior financial year the Co-operative derived interest revenue on the subordinated loan and dividend revenue on its investment in DFL at the rate of any ordinary dividend on DFL shares. In the prior financial year changes in DFL dividend levels could have had a material impact on DFMC's income statement.

(ii) Other market risks

On 26 November 2008 DFMC disposed of its investment in DFL (see note 8) and is no longer exposed to changes in the fair value of its investment in DFL which was dependent on the financial performance and position of DFL, as well as other factors.

(c) Credit risk

The Co-operative is exposed to credit risk that occurs when a counterparty to a financial instrument causes a financial loss for the Co-operative by failing to discharge an obligation. The maximum exposure to credit risk at balance date, which corresponds to the carrying value of each financial instrument, was as follows:

	2009 $'000	2008 $'000
Cash and cash equivalents (note 6)	49,240	221
Subordinated loan to DFL (note 7)	-	11,117
Share forfeit loan to DFL (note 7)	-	10,388
Farmer loans (note 7)	420	-
Other receivables (note 7)	1,653	94
Maximum credit risk exposure	51,313	21,820

The Co-operative does not hold collateral or any other security over the above financial assets.

Notes to the Financial Statements

NOTE 27: FINANCIAL INSTRUMENT AND RISK DISCLOSURES (continued)

(d) Liquidity risk

The Co-operative is exposed to liquidity risk that occurs when it encounters difficulty in meeting obligations associated with financial liabilities. The expected maturity profile of financial liabilities at the end of the financial year was as follows:

	2009 $'000	2008 $'000
Payable within 12 months		
Trade creditors and accruals (note 11)	1,403	574
Share forfeit loans (note 12)	-	2,725
	1,403	3,299
Payable after 12 months		
Members' share capital (note 15)	32,589	35,803
	33,992	39,102

Trade creditors, accruals and associated administration expenses are typically funded through the Aggregation Fee from DFL, which is received quarterly in advance. Share forfeit loans were funded through the subordinated loan to DFL, whereby, under the terms of the loan agreement, DFMC called for repayment to fund payment of share forfeit loans.

On 6 July 2009 DFMC completed a compulsory share cancellation. The share cancellation involved each participating DFMC members having 7 out of 10 shares held by that DFMC member cancelled subject to the Minimum Shareholding Requirement. In total 22,381,066 shares were cancelled through this transaction. The financial impact for DFMC is a reduction to both cash and cash equivalents and members' share capital of $22,381,066. Share capital in respect of all shares cancelled was repaid to members at $1.00 per share.

The Co-operative has access to other funding through the Share Acquisition Program (currently suspended).

The Co-operative also maintains a bank deposit account which is at call and which can be used for day to day cash management purposes. The repayment of the subordinated loan on 25 August 2008 in full, the dividend revenue from DFL and DFMC's disposal of its investment in DFL on 26 November 2008 has generated cash which is available to fund operating and capital requirements.

As a result of the above, the board does not currently foresee the need for, and has not established, a bank overdraft or drawdown facility.

(e) Interest rate risk

The Co-operative is exposed to variable interest rate risks on cash and cash equivalents. Effective from 20 April 2009 the Co-operative's operating bank account earns interest at the following rates on the cash and cash equivalents:

- Minimum $20 million earns the current cash rate plus 0.65% for the first 30 days,
- Minimum $20 million earns the current cash rate plus 0.50% for 30 - 90 days, and
- Minimum $20 million earns the current cash rate plus 0.25% for after 90 days

Effective from 29 May 2009, the Co-operative transferred $20 million into a 90 day term deposit facility. At the end of the financial year the term deposit was earning interest at 4.10%. Subsequent to the end of the financial year, and after maturity of the original term deposit, the Co-operative transferred $20 million into a 30 day term deposit earning interest at 3.49%.

During the year, if interest rates had changed by 25 basis points from the average rates with all other variables held constant, post tax profit for the period would have been approximately $68,000 lower/higher mainly as a result of the higher/lower interest income from cash and cash equivalents.

NOTE 27: FINANCIAL INSTRUMENT AND RISK DISCLOSURES (continued)

(f) Capital risk 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 for members and for other stakeholders and to maintain an optimal capital structure to reduce the cost 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 generate capital through deductions from payments to members for 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.

(g) Fair value disclosures

The carrying amounts and fair values of significant financial assets and liabilities are as follows:

	2009		2008	
	Carrying amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Subordinated loan to DFL (note 7)	-	-	11,117	11,117
Share forfeit loans to DFL (note 7)	-	-	10,388	10,388
Farmer loans (note 7)	420	420	-	-
Share forfeit loans (note 12)	-	-	(2,725)	(2,725)
Members' share capital (note 15)	(32,589)	(32,589)	(35,803)	(35,803)

The fair value of the above financial instruments has been determined by discounting the expected future cash flows by the interest rate of instruments with similar risk profiles. These fair value disclosures have been determined using a valuation technique that has been based on assumptions not supported by prices from observable current market transactions in the same instrument and are not based on observable market data.

(i) Investment in DFL (note 8)

In the prior financial year, the fair value of the investment in DFL was not disclosed because it could not be measured reliably whilst DFL remained a co-operative. Whilst DFL remained a co-operative, DFMC was restricted from disposing or transferring its shareholding in DFL in certain ways. Under these circumstances, DFMC would have ultimately realised $1.00 per share in the event that the DFL shares were cancelled.

Following implementation of the ACF Scheme DFMC's investment in DFL was disposed of on 26 November 2008 (see note 8). DFMC received proceeds on disposal of its investment totalling $81.91 million and received a dividend of $9.68 million (see note 2).

(ii) Other assets and liabilities

The fair value of all other assets and liabilities approximates their carrying value.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 11 to 36 are in accordance with the *Co-operatives Act 1992 (as amended)* and the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Co-operatives Act 1992 (as amended)* the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Co-operative's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

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

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

I H Zandstra	J J Bastian
Chairman	Director

Sydney, 22 September 2009

Grant Thornton

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

Report on the financial report

We have audited the accompanying financial report of Dairy Farmers Milk Co-operative Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001, Co-operatives Act 1992 and Co-operatives Regulation 2005. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 complied with applicable independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

a the financial report of Dairy Famers Milk Co-operative Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the Co-operatives' financial position as at 30 June 2009 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

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 2009, in accordance with the requirements of the Co-operatives Act 1992 and Co-operatives Regulation 2005.

Grant Thornton Audit Pty Ltd.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A J Archer

A J Archer
Director - Audit & Assurance Services

Sydney, 22 September 2009

Dairy Farmers Milk Co-operative

www.dfmc.org.au