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

James Geraghty

John Macarthur-Stanham

Alan Mathers (Deputy Chairman)

Duncan McInnes

Trevor Middlebrook

Peter Ness

Michael Roache

BANKERS

Australia and New Zealand Banking Group

AUDITORS

Grant Thornton Audit Pty Ltd

SOLICITORS

Addisons

SECRETARY

Greg Griffith

Facts at a Glance

HIGHLIGHTS

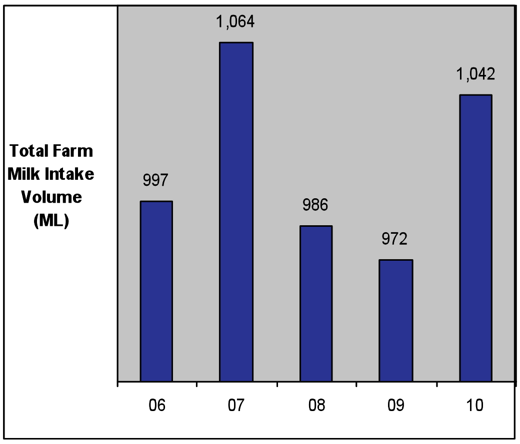
- DFMC acquired over 1 billion litres of milk from suppliers representing over $490 million in Gross Revenue of which 100% is returned directly back to members/ suppliers.
- Introduction of a new two tier Supply Management model, providing members with a forward view of the commercial requirements of the Processor and a clear understanding of the last litre price signal.
- DFMC had a continuing operating profit before income tax of $767,000. Total comprehensive income for the year which was attributed to the former members claim resulted in a net loss of $5,305,000.
- DFMC has strategically diversified its investment portfolio to include funds invested with the top 4 big banks and a range of stock acquisitions from companies of the ASX 200.

Metrics

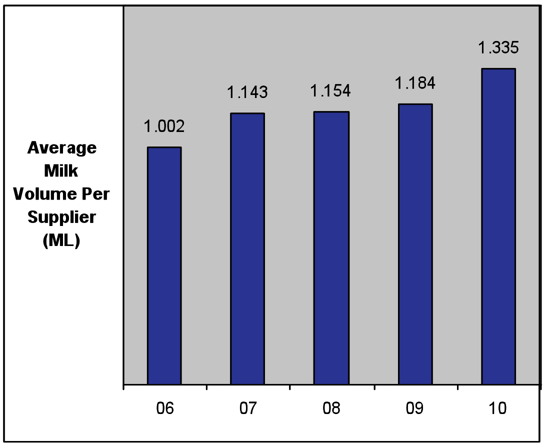
Financial Metrics	2010	2009
Performance and Returns		
Special dividends paid to members $'000 ($1.6879 per share)	**6,131**	56,934
Special dividends – percentage franked	**17%**	17%
DFMC administration costs (1) – cents per litre	**0.16**	0.11
Non-recurring restructure and investment advisory costs $'000	**-**	2,174
NPAT before dividends to members $'000	**1,183**	74,429
Dividends paid to members (2) $'000	**(6,131)**	(56,934)
NPAT (2) $'000	**(4,948)**	17,495
Balance Sheet		
Net tangible assets (3) $'000	**20,660**	50,100
Milk Supply Metrics		
Total milk volumes – million litres	**1,042**	972
Number of suppliers at year end	**758**	821
Average milk volume per supplier – million litres	**1,335**	1,184
(Decrease)/Increase in milk price year-on-year	**(6.3%)**	12.3%
Suppliers under contract	**99.3%**	99.4%

Notes

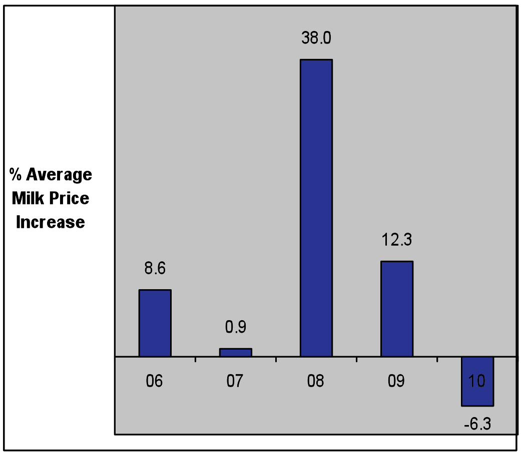
(1) DFMC administration costs (cents per litre) as a ratio to total milk volumes is calculated excluding non-recurring restructure and investment advisory costs.
(2) Under Australian International Financial Reporting Standards ('AIFRS'), dividends paid to members on ordinary shares are included as finance costs within the income statement.
(3) Net tangible assets have been calculated by including members' share capital within equity.



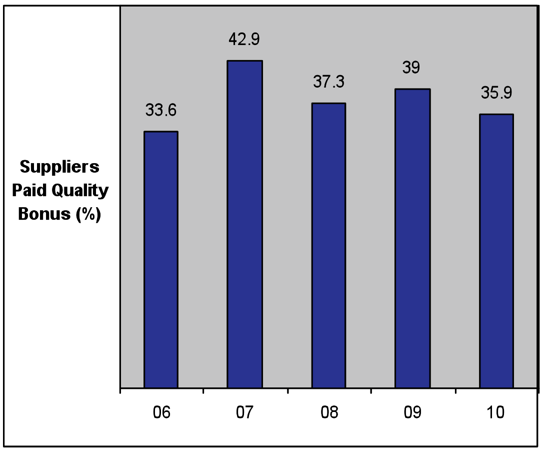
Total Farm Milk Intake Volume (ML)
997
1,064
986
972
1,042
06
07
08
09
10



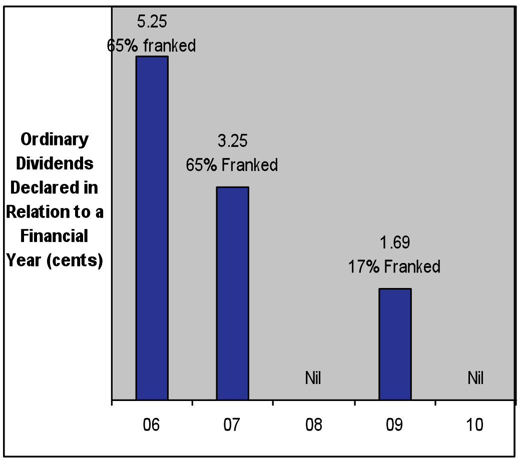
Average Milk Volume Per Supplier (ML)
1.002
1.143
1.154
1.184
1.335
06
07
08
09
10



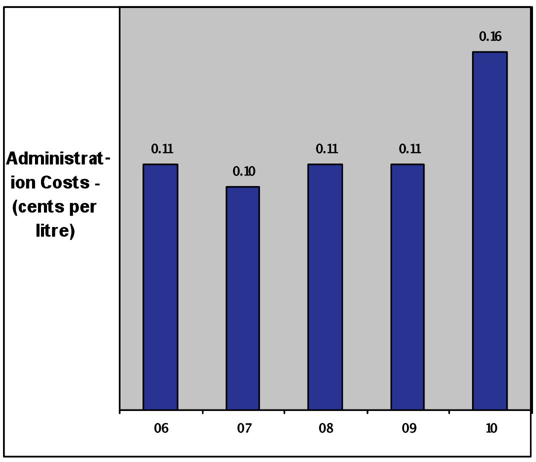
% Average Milk Price Increase
8.6
0.9
38.0
12.3
-6.3
06
07
08
09
10



Suppliers Paid Quality Bonus (%)
33.6
42.9
37.3
39
35.9
06
07
08
09
10



Ordinary Dividends Declared in Relation to a Financial Year (cents)
5.25
65% franked
3.25
65% Franked
Nil
1.69
17% Franked
Nil
06
07
08
09
10



Administrat-ion Costs - (cents per litre)
0.11
0.10
0.11
0.11
0.16
06
07
08
09
10

Chairman's Report

There is a saying that the dairy industry is always in a state of flux and our members have certainly seen that with the history and 2008 sale of Dairy Farmers. Some would say that from that perspective it has been the much talked of industry rationalisation.

However industry rationalisation and manoeuvring is still ongoing and it is the role of DFMC Board to be the voice of and to best position the suppliers and their milk in the supply chain and commercial negotiations. This is also in effect the basis of the landmark ACCC authorisation that enabled DFMC to exist as a national supply Co-operative. One of the tests of authorisation will be to ask whether DFMC has performed in a manner that enhanced competitiveness and that test, self imposed, has led to our strong stance of independence.

MILK PRICES 2009/10

Generally during FY2009/10 DFMC members had a stable period in terms of milk pricing due to the 18 month and 30 month contract agreements. Milk prices in the Central (NSW) and Northern (SEQ) regions were unchanged until July 2010. Prices in Southern and Far Northern (FNQ) regions that had southern competitive values factored into the price equation were underpinned by a supportive guaranteed minimum price that lifted the paid prices above competitors in South. However the DFMC milk price in both those regions was a decrease on the previous year.

SUPPLY MANAGEMENT POLICY

Part of the terms of the transaction agreement with National Foods Limited (NFL) was the Anticipated Full Demand (AFD) concept, the alignment of DFMC regional milk supply to NFL commercial needs. The DFMC Board has invested much time and energy to develop an allocation system to set new contract figures for our suppliers. The issues were around allocating the needed regional AFD volumes fairly and equitably to our farmers and also building a contract model based on the required flat line supply.

The outcome of this policy build was DFMC offering all suppliers the option of a Variable Price/ Variable Supply (VP) contract or a Fixed Price/Fixed Supply (FP) contract.

MILK PRICES 2010/11

The value of our individual suppliers' milk now very much depends on both price and the effect of the supply management policy. Contracted milk (milk that is within commercial needs) has a Tier1 value, and milk that is excess has a Tier 2 value. Milk price negotiations with NFL took time, with a result on a regional basis showing Tier 1 prices for Southern with a slight lift, FNQ stable and with SEQ and NSW prices decreasing.

FORMER MEMBERS CLAIM

On 30 June 2010 the matter arising from the claims by those former members who applied for re-instatement was completed. Those former members sought reinstatement in order to participate in the DFMC Special Dividend resulting from the distribution of proceeds from the sale of DFMC-held Dairy Farmers shares to National Foods Limited.

Following the initial successful claim by thirty one (31) former members, an additional one hundred and three former members also lodged claims for reinstatement. Eighty five of those claimants, representing 1,649,248 shares, were paid the Special Dividend at a rate of $1.6879 per share totalling $2,783,767. Twenty three (23) former members were unsuccessful in their claim. The total payment on all the former member claims was $4,624,357.

The balance of the original funds put aside for the former member claims will continue to be retained by DFMC.

SEASONAL CONDITIONS

Rainfall conditions improved to some normality in all of our regions in the year FY 2009/10 but the big issue again was seasonal variability and lack of irrigation in the Western NSW valleys, Northern Victoria and the River and Lakes area of South Australia. Farmers in those areas have had a trying time and as fellow farmers the Directors are appreciative of the managerial, operational and financial efforts to maintain their dairy businesses.

Milk volumes supplied have increased by approximately 7.2% overall with the main regions of percentage increase being Central NSW, SEQ and Riverina/Victoria. Farm supplier number due to the fixed term contracts have been fairly stable in all areas.

MANAGERIAL TEAM

March this year saw the appointment of Ron Page as the new Regional Manager for the Southern Region. Ron comes to DFMC with a wealth of dairy industry experience and farmer liaison background. Our Regional Manager team of Helen Whitelaw, Mal Maroske and Ron have large regions and a lot of farmers to cover. They liaise with suppliers regarding price and policy and the Directors are extremely grateful of their whole hearted and dedicated efforts. DFMC is a people relationship entity and our Regional Managers are the very epitome of that.

DFMC suppliers have also had the ongoing services of the National Foods Farm Services Technical Managers & Officers and I extend our thanks to Lucy Coward, Paul Rees, Greg Gilbert and their team.

APPRECIATION

Executive Officer Greg Griffith is very much the “man in the middle”, the “go to” person of this supply co-operative model. Greg manages the DFMC relationship with National Foods and the relationship between the members and the Directors. National Foods under the Milk Supply Agreement (MSA) agreement provide financial, share registry and other administrative services for DFMC, which must be overseen by Greg. The Board extends appreciation to Greg for his fine effort over the past year. Keiryn Jackson has provided experienced and invaluable support to Greg. Others are important in this administrative nexus between DFMC and National Foods and it is with caution that I mention only some of the many; Mark Young and Sam Hy and the team in financial and Anton Baggerman in website support.

DFMC has a new Director in the team, James Geraghty of Far North Queensland, appointed after the retirement of Eddie Wallwork. I thank all Directors for their contributions during the past year.

Our members have strongly supported the regional ward meetings and the Ward Representatives have had an active year, have contributed to the development of our supply management model as well as providing the Board feedback to general operational matters.

To the members, thank you for your ongoing support and constructive, at times very challenging, democratic contribution. If DFMC is to be the voice of the members then we must be determined to have an environment where the member’s voice is heard and valued.

Yours Sincerely,

Chairman
Dairy Farmers Milk Co-operative

Sydney 28 September 2010

Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co-operative for the year ended 30 June 2010.

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
- J B Geraghty (Appointed November 2009)
- J G Macarthur-Stanham
- A M Mathers (Deputy Chairman)
- D A McInnes
- T J Middlebrook
- E W Wallwork (Resigned November 2009)
- M P Roache
- P C Ness

PRINCIPAL ACTIVITIES

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

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

REVIEW OF RESULTS AND OPERATIONS

The loss after income tax for the Co-operative amounted to $5,305,000 (2009: $17,495,000 profit).

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

DIVIDENDS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes to the state of affairs during the 2009/10 financial year.

SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly altered or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

FUTURE DEVELOPMENTS

The Co-operative expects to continue operating as an ongoing entity with a sustainable capital base and hence there are no likely developments in the Co-operative's 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 Australian Co-operative Foods (ACF) board from 1998 to 2004. He is currently on the Steering Committee of the national dairy project 'Future Dairy'. Mr Zandstra holds a Bachelor of Arts.

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

Jeff Ballon

Jeff Ballon joined the board of the Co-operative on 26 April 2005 and is a member of the Audit, Finance & Governance Committee. 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.

John Bastian

John Bastian joined the Co-operative's board on 30 September 2004 and Mr Bastian 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 and is a member of the Milk Supply Committee. 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.

McInnes' partnership has increased production from 100,000 litres in 1980 to an expected 4.6 million litres in the financial year 2010/11..

James Geraghty

James Geraghty was appointed as a director of the Co-operative in November 2009. Mr Geraghty is a third generation dairy farmer from Millaa Millaa on the Atherton Tablelands in Far North Queensland. James has been a Distict Councillor with Queensland Dairyfarmers Organisation since 1996 and a State Councillor since 2000. His dairy farm milks about 250 cows year round in a climate that delivers an average rainfall of 3.5 metres a year. He and his family have been on their current farm since 1981.

John Macarthur-Stanham

John Macarthur Stanham joined the Co-operative's board on 16 November 2005 and is a member of the Audit, Finance & Governance Committee. 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 and is chair of the Milk Supply committee.

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 and is a member of the Milk Supply Committee. 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.

Michael Roache

Michael Roache was appointed to the Co-operative's board on 29 November 2007 and is a member of the Audit, Finance & Governance Committee. 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.

Peter Ness

Peter Ness was appointed as a Director of the Co-operative on 30th September 2004 and is a member of the Milk Supply Committee. 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.

Directors' Report

COMPANY SECRETARY

Mr Gregory Griffith is the Co-operative's Company Secretary and has held that position since his appointment 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, 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	14	14	-	-	-	-
Jeff E Ballon	13	14	6	6	-	-
John J Bastian	13	14	6	6	-	-
John G Macarthur-Stanham	13	14	6	6	-	-
Alan M Mathers	14	14	-	-	6	6
Duncan A McInnes	13	14	-	-	6	6
Trevor J Middlebrook	14	14	-	-	6	6
Peter C Ness	13	14	-	-	6	6
Michael P Roache	14	14	6	6	-	-
Edward W Wallwork	5	5	-	-	2	2
James B Geraghty	9	9	-	-	4	4

Column A – The number of meetings attended.

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

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

AUDITORS' INDEPENDENCE DECLARATION

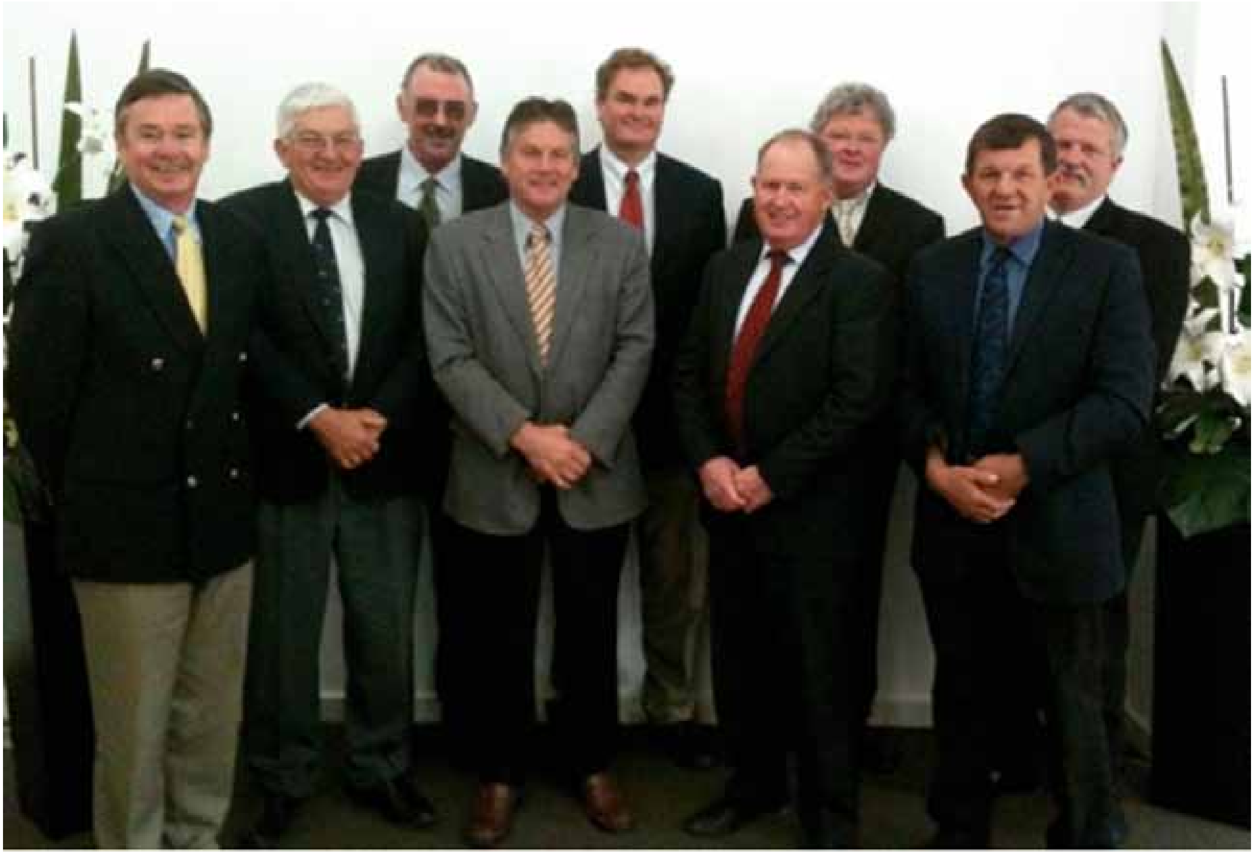
The lead auditors' independence declaration for the year ended 30 June 2010 as required by section 307C of the Corporations Act 2001 is set out on page number 11. Total non-audit service fees paid or payable to the auditors are disclosed in Note 19 to the Financial Statements.

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

I H Zandstra
Chairman

J J Bastian
Director

Sydney, 28 September 2010



Directors, left to right: John Bastian, Duncan McInnes, James Geraghty, Ian Zandstra, John Macarthur-Stanham, Trevor Middlebrook, Michael Roache, Jeff Ballon, Peter Ness (Alan Mathers is not in attendance)

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.

Composition

The committee currently comprises:

John Bastian (Chairman)	Michael Roache
Jeff Ballon	John Macarthur-Stanham

Access and reporting

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

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

Responsibilities

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

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

External Audit Appointment and Supervision

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

(b) Independence: The Co-operative will not invite 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

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

Composition

The committee comprises:

Alan Mathers (Chairman)	Trevor Middlebrook
Peter Ness	Eddie Wallwork (resigned Nov 09)
Duncan McInnes	James Geraghty

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
- DFMC Website www.dfmc.org.au

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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 Limited for the year ended 30 June 2010, 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, 28 September 2010

Statement of Comprehensive Income

For the year ended 30 June 2010	Notes	2010 $'000	2009 $'000
Sales revenue	2	**495,159**	526,670
Cost of sales		**(495,159)**	(526,670)
Gross profit		**-**	-
Aggregation fee revenue	2	**1,100**	1,100
Administration expenses		**(1,660)**	(1,100)
Restructure and investment advisory costs		**-**	(2,174)
Net administration result		**(560)**	(2,174)
Investment revenue			
Dividend revenue – ACF Scheme	2	**-**	9,680
Dividend revenue – Equities	2	**131**	-
Interest revenue	2	**1,212**	1,283
Finance costs			
Members' dividends* - ordinary	3	**-**	(56,934)
Financial institution and others	3	**(16)**	(8)
Other income			
Profit on sale of available for sale financial assets	2	**-**	65,709
Net investment and financing result		**1,327**	19,730
Profit/(Loss) from continuing operations before income tax		**767**	17,556
Income tax benefit (expense)	4	**416**	(61)
Profit/(Loss) from continuing operations after income tax		**1,183**	17,495
Members' dividends payments* - ordinary	3	**(6,131)**	-
(Loss)/Profit for the year	15	**(4,948)**	17,495
Net (loss) on revaluation of financial assets		**(357)**	-
Total comprehensive income for the year attributable to members of the co-operative		**(5,305)**	17,495

* 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(i), 5 and 14.

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

Statement of Financial Position

As at 30 June 2010	Notes	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	6	**17,004**	49,240
Receivables	7	**1,061**	2,073
Other current assets	8	**13**	43
Total current assets		**18,078**	51,356
Non-current assets			
Financial assets	9	**7,068**	-
Property, plant and equipment	10	**6**	13
Deferred tax assets	11	**707**	139
Total non-current assets		**7,781**	152
Total assets		**25,859**	51,508
Current liabilities			
Payables	12	**4,457**	1,403
Provisions	13	**14**	4
Total current liabilities		**4,471**	1,407
Non-current liabilities			
Provisions	13	**4**	1
Members' share capital*	14	**9,178**	32,589
Total non-current liabilities		**9,182**	32,590
Total liabilities		**13,653**	33,997
Net assets		**12,206**	17,511
Equity			
Retained profits	15	**12,563**	17,511
Reserves	18	**(357)**	-
Total equity		**12,206**	17,511

* 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(i), 5 and 14.

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

Statement of Changes in Equity

	Retained profits $'000	Financial assets reverve $'000	Total $'000
Balance at 1 July 2008	16	-	**16**
Profit attributable to the co-operative	17,495	-	**17,495**
Balance at 30 June 2009	17,511	-	**17,511**
(Loss) attributable to the co-operative	(4,948)	-	**(4,948)**
Total other comprehensive income for the year	-	(357)	**(357)**
Balance at 30 June 2010*	12,563	(357)	**12,206**

* 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(i), 5 and 14.

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

Statement of Cash Flows

For the year ended 30 June 2010	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		**496,915**	578,699
Payments to suppliers, employees and directors		**(495,291)**	(581,589)
Dividends received		**131**	9,680
Interest received		**1,212**	1,283
Borrowing costs		**-**	(8)
Income tax received		**-**	22
Net operating cash flows	23	**2,967**	8,087
Cash flows from investing activities			
Payments for property, plant and equipment		**-**	(6)
Proceeds from sale of investment in DFL		**-**	81,910
Share forfeit loan repayments from DFL		**-**	11,204
Subordinated loan repayments from DFL		**-**	11,117
Payment for investment in equities		**(7,500)**	-
Loans advanced to farmers		**-**	(4,420)
Loans repaid from farmers		**420**	4,000
Net investing cash flows		**(7,080)**	103,805
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**6**	68
Payment for share cancellation		**(22,381)**	-
Repayment of share forfeit loans		**(1,036)**	(6,007)
Dividends paid – ordinary shares		**-**	(56,934)
Dividends paid – former member		**(4,712)**	-
Net financing cash flows		**(28,123)**	(62,873)
Net (decrease)/increase in cash		**(32,236)**	49,019
Cash at the beginning of the financial year		**49,240**	221
Cash at the end of the year	6	**17,004**	49,240

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

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(b) Cash and cash equivalents (note 6)

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

(c) Receivables (note 7)

(i) Other receivables

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

(ii) 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.

(iii) Collectibility

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

(d) Property, plant and equipment (note 10)

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

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

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

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

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

(e) Impairment

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

(f) Payables (note 12)

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

(g) Borrowings

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(h) Employee benefits (note 13)

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

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

(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.

(i) Members' share capital (note 14)

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

(j) Revenue recognition (note 2)

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

A sale is recorded when the goods have been delivered to and accepted by the customer or its agent and 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

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

(iv) Interest revenue

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

(k) Finance costs (notes 3 and 5)

(i) Dividend rate

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

(ii) Other finance costs

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

(l) Income tax (notes 4, 11)

The income tax expense or revenue for the year is the tax payable on the current year's taxable income adjusted by changes in deferred tax assets and liabilities attributable to

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

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

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

(m) Reporting period

The financial report has been prepared for the financial year ended 30 June 2010.

(n) Foreign currency translation

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

(o) Goods and services tax (GST)

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

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

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

(p) Rounding of amounts

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

(q) Comparative figures

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

(r) New accounting standards

During the current year the Co-operative adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Dairy Farmers Milk Co-operative Limited.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Co-operative's financial statements.

Disclosure impact:

Terminology changes — The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Co-operative financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Co-operative has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Co-operative are as follows:

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Co-operative has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - o the objective of the entity's business model for managing the financial assets; and
  - o the characteristics of the contractual cash flows.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Co-operative.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Co-operative.

The Co-operative does not anticipate the early adoption of any of the above Australian Accounting Standards.

(s) Financial instruments

Initial recognition and measurement

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

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Classification and subsequent measurement

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

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

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

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

I. Financial assets at fair value through profit or loss

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

II. Loans and receivables

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

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

III. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Co-operative's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period, the Co-operative sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire category of held-to-maturity investments would be tainted and would be reclassified as available-for-sale.

IV. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

V. Financial liabilities

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

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(t) Significant judgements in applying accounting polices

(i) Recovery of deferred tax assets

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

(ii) Valuation of investments

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

Notes to the Financial Statements

NOTE 2: REVENUE AND OTHER INCOME

	2010 $'000	2009 $'000
Revenue from continuing operations		
Sales revenue		
Sales revenue – sale of goods to DFL (a)	495,159	517,189
Sales revenue – sale of goods to other external parties	-	9,481
	495,159	526,670
Other administration and investment revenue		
Aggregation fee revenue (b)	1,100	1,100
Dividend revenue – ACF Scheme	-	9,680
Dividend revenue – Equities	131	-
Interest revenue – financial institutions and other	1,212	1,283
	2,443	12,063
Total revenue from continuing operations	497,602	538,733
Other income		
Profit on sale of available for sale financial assets	-	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 2019, so that DFMC can secure a long term dependable outlet for milk at a commercial price. Prior to the implementation of the ACF Scheme, DFMC and ACF (now DFL) jointly sought authorisation from the ACCC regarding aspects of the Milk Supply Agreement to ensure compliance with the Trade Practices Act. The ACCC authorised aspects of the Milk Supply Agreement for which approval was sought for a period of 5 years from the date the transaction was completed.

(b) Aggregation fee revenue

Under the Milk Supply Agreement between DFMC and DFL, while DFMC derives at least 90% of its revenues from DFL, DFL must pay the Aggregation Fee to DFMC to cover the expenses incurred by DFMC in connection with the consolidation or aggregation of the milk supply for on sale to DFL. The Aggregation Fee for the year ended 30 June 2010 was agreed at $1.1 million.

NOTE 3: EXPENSES

Profit before income tax includes the following specific expenses		
Finance costs		
Members' share capital payments (note 5)		
Special dividends	6,131	56,934
Financial institutions and others	16	8
	6,147	56,942
Restructure and investment advisory costs	-	2,174
Depreciation – plant and equipment	7	7
Loss on sale of property, plant and equipment	-	1
Employee and director benefits expense	561	432
Defined contribution superannuation expense	43	39

NOTE 4: INCOME TAX

	2010 $'000	2009 $'000
(a) Income tax expense reconciliation		
(Loss)/Profit before income tax	(5,364)	17,556
Income tax (benefit)/expense calculated at 30% (2009: 30%)	(1,609)	5,267
Tax effect of amounts not deductible or (taxable)		
Non deductible advisory fees	2	373
Franked amount of members' share capital payments	302	2,876
Franked dividend revenue	-	(2,904)
Capital loss – forfeiture of DFL shares	-	(267)
Capital loss – sale of available for sale financial assets	-	(5,290)
	(1,305)	55
Recognition of prior period capital losses not recognised in prior years	-	(3,572)
Current period tax losses not recognised	889	3,382
Prior period tax losses and temporary differences derecognised	-	46
Under provided in prior years	-	150
Income tax (benefit) expense	(416)	61
Average effective tax rate	(7.7%)	0.0%
(b) Income tax expense analysis		
Deferred tax		
Changes in deferred tax assets (note 11)	(428)	62
Changes in deferred tax liabilities (note 11)	12	(1)
	(416)	61
Current tax	-	-
Income tax (benefit) expense	(416)	61
(c) Unrecognised tax losses		
Unused tax losses for which no deferred tax asset has been recognised	14,390	11,427
Unused capital tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit at 30%	4,317	3,428

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:

	2010	2009
(a) Dividends		
(i) Special dividends – recognised and paid during the financial year		
Payment date	-	17 Dec 2008
Dividend per share	-	$1.6879
Per cent franked	-	17%
Paid in cash	-	56,934
Total ordinary dividends paid during the financial year	-	56,934
(ii) Special dividends to former members – recognised and paid during the financial year		
Payment date	**Various**	-
Dividend per share	**$1.6879**	-
Per cent franked	**17%**	-
Paid in cash	**4,624**	-
Accrued to be paid	**1,419**	-
Interest	**88**	-
Total ordinary dividends paid during the financial year	**6,131**	-
Former members reinstated for purposes of payment of dividend relating to investment previously sold.		
(b) Franking credits	**197**	495

Franking credits available for subsequent financial years

The above franking account balance has been adjusted for:

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

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

(c) Interest payable at dividend rate

In addition to the above, and prior to implementation of the ACF Scheme, interest was payable on share forfeit loans at the rate of ordinary dividend payable on ordinary shares, as disclosed in note 1k(i). No interest has been paid on share forfeit loans during the financial year ended 30 June 2010 or the previous financial year.

NOTE 6: CASH AND CASH EQUIVALENTS

	2010	2009
Cash and cash equivalents	**17,004**	49,240

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 6.32% (2009: 3.25% and 7.4%).

NOTE 7: RECEIVABLES

Farmer loans	**-**	420
Other receivables	**1,061**	1,653
Other receivables	**1,061**	2,073

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue) < 30	31-60	61-90	> 90	Within Initial Trade Terms
2010	$	$	$	$	$	$	$
Other receivables	1,061	-	-	-	-	825	236

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue) < 30	31-60	61-90	> 90	Within Initial Trade Terms
2009	$	$	$	$	$	$	$
Other receivables	1,653	-	-	-	-	-	1,653

NOTE 8: OTHER CURRENT ASSETS

	2010 $'000	2009 $'000
Prepayments	**13**	43

NOTE 9: FINANCIAL ASSETS

	2010 $'000	2009 $'000
Available for sale financial assets – shares in listed corporations	**7,068**	-

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth to invest $7.5 million in the Australian equities market. This investment was transacted in February 2010 and no subsequent trading apart from the initial acquisitions totalling $7.5 million have taken place. There are no fixed returns or fixed maturity dates attached to these investments.

Notes to the Financial Statements

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	2010 $'000	2009 $'000
Plant and equipment		
At cost	30	33
Accumulated depreciation	(24)	(20)
	6	13
(a) Movement reconciliation		
Carrying amount at the beginning of the year	13	10
Additions	-	11
Disposals	-	(1)
Depreciation	(7)	(7)
Carrying amount at the end of the year	6	13

NOTE 11: DEFERRED TAX

	2010 $'000	2009 $'000
Deferred tax assets		
Amounts recognised in profit or loss		
Accruals	407	8
Consulting and advisory costs	154	131
Employee provisions	5	-
Mark-to-market available for sale financial asset	153	-
Total deferred tax assets	719	139
(a) Movements		
Balance at the beginning of the year	139	201
Credited to the income statement	427	133
Credited to equity	153	-
(Under) in prior year	-	(149)
Tax losses derecognised during the current year	-	(46)
Balance at the end of the year	719	139
(b) Timing of recovery		
To be recovered		
Within 12 months	565	8
After 12 months	154	131
	719	139
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Unearned revenue	12	-
Total deferred tax liabilities	12	-
Total net deferred	707	139

NOTE 11: DERRERED TAX (continued)

	2010 $'000	2009 $'000
(a) Movements		
Balance at the beginning of the year	-	1
Charged (Credited) to the income statement	12	(1)
Balance at the end of the year	12	-
(b) Timing of settlement		
To be settled		
Within 12 months	12	-
	12	-

NOTE 12: PAYABLES

	2010 $'000	2009 $'000
Trade creditors and accruals	4,457	1,403

NOTE 13: PROVISIONS

	2010 $'000	2009 $'000
Current		
Employee benefits	14	4
Non-current		
Employee benefits	4	1
Balance at the beginning of the year	5	-
Charged to the income statement	17	5
Amounts used	(4)	-
Balance at the end of the year	18	5

NOTE 14: MEMBERS' SHARE CAPITAL

	Number of Shares		Nominal Value	
	2010 #	2009 #	2010 $'000	2009 $'000
Opening balance – shares of $1 each (fully paid)	32,541,122	35,797,194	32,541	35,797
Shares issued				
Cash	54,300	26,255	54	26
Shares repurchased – cash (b)	-	-	-	-
Shares forfeited (c)	(1,036,581)	(3,282,327)	(1,036)	(3,282)
Share cancellation (e)	(22,381,066)	-	(22,381)	-
Closing balance – shares of $1 each (fully paid)	9,177,775	32,541,122	9,178	32,541
Unallocated members' contribution (d)	-	-	-	48
Balance at the end of the year	9,177,775	32,541,122	9,178	32,589

NOTE 14: MEMBERS' SHARE CAPITAL

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).

(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.

(f) Capital management

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

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

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

NOTE 15: RETAINED PROFITS

	2010 $'000	2009 $'000
Balance at the beginning of the year	**17,511**	16
(Loss) Profit attributable to members	**(4,948)**	17,495
Balance at the end of the year	**12,563**	17,511

NOTE 16: COMMITMENTS FOR EXPENDITURE

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

NOTE 17: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Co-operative does not have any contingent liabilities or assets as at 30 June 2010.

NOTE 18: RESERVES

Financial assets reserve

The financial assets reserve records revaluation increments and decrements (that do not represent impairment write-downs) that relate to financial assets that are classified as available-for-sale.

NOTE 19: AUDITORS' REMUNERATION

	2010 $	2009 $
Amounts received by PricewaterhouseCoopers for other services.	5,000	-
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
Amount received, or due and receivable by Grant Thornton for audit of the financial report.	12,600	12,000
Amount received, or due and receivable by Grant Thornton for other services.	29,900	6,000

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

J E Ballon, J J Bastian, J G Macarthur Stanham, J B Geraghty (appointed in Nov 09), A M Mathers (Deputy Chairman), D A McInnes, T J Middlebrook, P C Ness, E W Wallwork (resigned in Nov 09), M P Roache and I H Zandstra (Chairman).

(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 20(d).

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

Base directors' fees were established at the first annual general meeting on 17 November 2004 based on advice from external advisors, which included reference to fee levels for comparable companies. Members voted to change the base fee levels per director at the 2009 annual general meeting. At the 2009 annual general meeting the members approved the payment of $10,000 per annum to the chairperson of each board sub committee's, an increase to a total of $40,000 base fee per annum for all director and a reduction to a base fee of $85,000 per annum for the Chairman of the Board. The total fees paid are within the limit approved by members.

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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.

	2010 $'000	2009 $'000
(d) Key management personnel compensation		
Short-term employment benefits	**561,581**	432,118
Post-employment benefits (superannuation)	**42,765**	39,440
Total key management personnel compensation	**604,346**	471,558

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

Director fees for the current financial year are:

	Number of Directors	Per Annum Fee
Chairman	**1**	85,000
Other directors	**9**	380,000

(e) Other transactions with key management personnel

a. Farmer directors

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

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

b. Directors generally

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

NOTE 21: RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY

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

- Sale of milk to DFL (note 2)
- Aggregation Fee revenue derived from DFL (note 2)

In addition, under the terms of the Milk Supply Agreement, DFMC paid an Administrative Services Fee of $100,000 (2009: $100,000) to DFL during the financial year to cover the cost of providing administrative facilities and services including offices, communication services, computer hardware and systems, and accounting and secretarial services.

NOTE 22: FINANCIAL FACILITIES

The Co-operative currently operates without the need for bank finance facilities (see note 24 (a). A fixed amount of annual funding is made available to DFMC to cover its administrative costs through the Aggregation Fee revenue from DFL as indicated in note 2(b).

NOTE 23: CASH FLOW RECONCILIATION

	2010 $'000	2009 $'000
(Loss) Profit attributable to members	**(5,305)**	17,495
Depreciation expense	**7**	7
Loss on disposal of property, plant and equipment	**-**	1
Finance costs – members' share capital payments	**-**	56,934
Finance costs – dividends paid former member	**4,712**	-
Profit on sale of available for sale financial assets	**-**	(65,709)
Changes in operating assets and liabilities		
Decrease (Increase) in net working capital	**3,988**	(724)
Decrease (Increase) in net tax balances	**(435)**	83
Net cash inflow from operating activities	**2,967**	8,087

Shares forfeited during the year totalling $1.036 million (2009: $3.282 million) were paid from members' share capital.

NOTE 24: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

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

At 30 June 2010 the Co-operative's financial assets and liabilities are as follows:

	Note	2010 $'000	2009 $'000
Financial assets			
Cash and cash equivalents	6	17,004	49,240
Loans and receivables	7	1,061	1,653
Available-for-sale financial assets:			
- at fair value:			
- listed investments	9	7,068	-
Total financial assets		25,133	50,893
Financial liabilities			
Financial liabilities at amortised cost:			
- trade and other payables	12	4,457	1,403
Total financial liabilities		4,457	1,403

Liquidity risk

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

— preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;

— using derivatives that are only traded in highly liquid markets;

— monitoring undrawn credit facilities;

— obtaining funding from a variety of sources;

— maintaining a reputable credit profile;

— managing credit risk related to financial assets;

— only investing surplus cash with major financial institutions; and

— comparing the maturity profile of financial liabilities with the realisation profile of financial assets

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

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

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

(i) Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Financial liabilities due for payment								
Trade and other payables (excluding est. annual leave)	**4,457**	1,403	**-**	-	**-**	-	**4,457**	1,403
Total contractual outflows	**4,457**	1,403	**-**	-	**-**	-	**4,457**	1,403
Less bank overdrafts	**-**	-	**-**	-	**-**	-	**-**	-
Total expected outflows	**4,457**	1,403	**-**	-	**-**	-	**4,457**	1,403
Financial assets — cash flows realisable								
Cash and cash equivalents	**17,004**	49,240	**-**	-	**-**	-	**17,004**	49,240
Trade, term and loan receivables	**1,061**	2,073	**-**	-	**-**	-	**1,061**	2,073
Other investments	**-**	-	**-**	-	**7,068**	-	**7,068**	-
Total anticipated inflows	**18,065**	51,313	**-**	-	**7,068**	-	**25,133**	51,313
Net (outflow)/inflow on financial instruments	**13,608**	49,910	**-**	-	**7,068**	-	**20,676**	49,910

Price risk

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

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

Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

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

	2010	2009
Banks	2,054	-
Commercial services & supplies	301	-
Diversified financials	246	-
Energy	469	-
Food & drug retailing	734	-
Health care equipment & services	377	-
Insurance	578	-
Materials	931	-
Pharmaceuticals & Biotechnology	251	-
Real estate	417	-
Software & services	201	-
Telecommunication services	154	-
Transportation	152	-
Utilities	203	-
	7,068	-

Sensitivity analysis

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

	Profit $	Equity $
Year ended 30 June 2010		
+/- 2% in interest rates	+/- 479	+/- 479
+/-10% in listed investments	N/A	+/- 317
Year ended 30 June 2009		
+/- 2% in interest rates	+/- 614	+/- 614
+/-10% in listed investments	N/A	-

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

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Net Fair Values

Fair value estimation

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

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

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

		2010		2009	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	Footnote	$	$	$	$
Financial assets					
Cash and cash equivalents	(i)	**17,004**	**17,004**	49,240	49,240
Trade and other receivables	(i)	**1,061**	**1,061**	2,073	2,073
		18,065	**18,065**	51,313	51,313
Available-for-sale financial assets:					
- at fair value:					
- listed investments		**7,068**	**7,068**	-	-
Total available-for-sale financial assets	(iii)	**7,068**	**7,068**	-	-
Total financial assets		**25,133**	**25,133**	51,313	51,313
Financial liabilities					
Trade and other payables	(i)	**4,457**	**4,457**	1,403	1,403
Members' share capital	(iv)	**9,178**	**9,178**	32,589	32,589
Total financial liabilities		**13,635**	**13,635**	33,992	33,992

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

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

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

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

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

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

Financial Instruments Measured at Fair Value

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

— quoted prices in active markets for identical assets or liabilities (Level 1);

— inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

— inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

2010	Level 1 $	Level 2 $	Level 3 $
Financial assets			
Available-for-sale financial assets:			
- listed investments	7,068	-	-
	7,068	-	-

2009	Level 1 $	Level 2 $	Level 3 $
Financial assets			
Available-for-sale financial assets:			
- listed investments	-	-	-
	-	-	-

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

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

NOTE 25: EVENTS AFTER THE REPORTING PERIOD

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

NOTE 26: CO-OPERATIVE DETAILS

The registered office and principal place of business is:

Quad 1
8 Parkview Drive
Sydney Olympic Park NSW 2127

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 12 to 37 are in accordance with the Co-operatives Act 1992 (as amended) and the Corporations Act 2001, including:

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

  (ii) giving a true and fair view of the Co-operative's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

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

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

I H Zandstra

Chairman

J J Bastian

Director

Sydney, 28 September 2010

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

We have audited the accompanying financial report of Dairy Farmers Milk Co-operative Limited ("Co-operative") , which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Co-operative 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 are 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.

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 whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

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

  i giving a true and fair view of the Co-operative's financial position as at 30 June 2010 and of it's 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.

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 2010, and of its financial performance for the year ended on that date, 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, 28 September 2010