# Contents



## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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8 Parkview Drive

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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

Duncan McInnes

Trevor Middlebrook

Peter Ness

Michael Roache

## BANKERS

Australia and New Zealand Banking Group

## AUDITORS

Grant Thornton Audit Pty Ltd

## SOLICITORS

Addisons

## EXECUTIVE OFFICER & SECRETARY

Greg Griffith

# Facts at a Glance

## HIGHLIGHTS

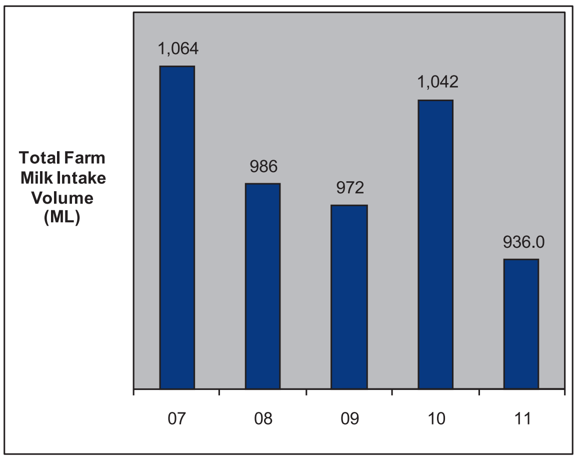
- DFMC members received an 8% un-franked dividend on shareholding. Total payment equated to $735,000.
- DFMC negotiated favourable Anticipated Full Demands terms for 2010/11 financial year. Suppliers maintained a strong competitive milk price and trading terms in a challenging environment.
- DFMC had a continuing operating profit before income tax & dividend payments of $1,390,000. Total comprehensive income for the year attributable to members is $1,016,000.
- DFMC has continued to strategically diversify its investment portfolio to include funds invested with leading banking institutions providing DFMC with an average interest rate of 6.1% and an increased investment in a range of stocks from the top 200 companies listed on the ASX.

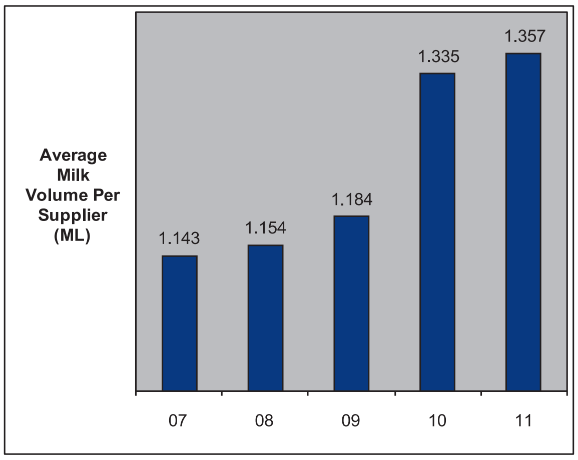
## Metrics

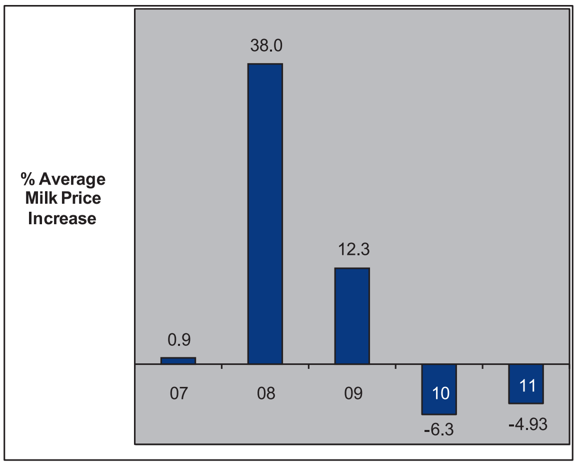
| Financial Metrics | 2011 | 2010 |
|---|---|---|
| Performance and Returns | | |
| Special dividends paid to members $'000 ($0.08 per share) | **735** | 6,131 |
| Special dividends – percentage franked | **0%** | 17% |
| DFMC administration costs (1) – cents per litre | **0.16** | 0.16 |
| Non-recurring restructure and investment advisory costs $'000 | **-** | - |
| NPAT before dividends to members $'000 | **1,302** | 1,183 |
| Dividends paid to members (2) $'000 | **(735)** | (6,131) |
| *Ex-member reinstatement declined* | **181** | |
| NPAT (2) $'000 | **748** | (4,948) |
| Balance Sheet | | |
| Net tangible assets (3) $'000 | **21,667** | 20,660 |
| **Milk Supply Metrics** | | |
| Total milk volumes – million litres | **921** | 1,042 |
| Number of suppliers at year end | **690** | 758 |
| Average milk volume per supplier – million litres | **1,361** | 1,335 |
| (Decrease)/Increase in milk price year-on-year | **(4.9%)** | (6.3%) |
| Suppliers under contract | **100%** | 99.3% |

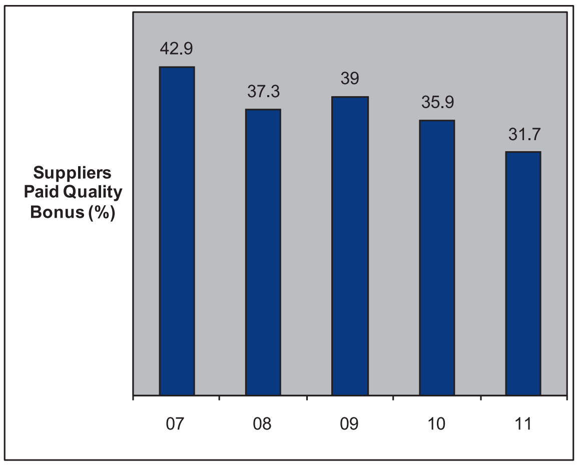
**Notes**

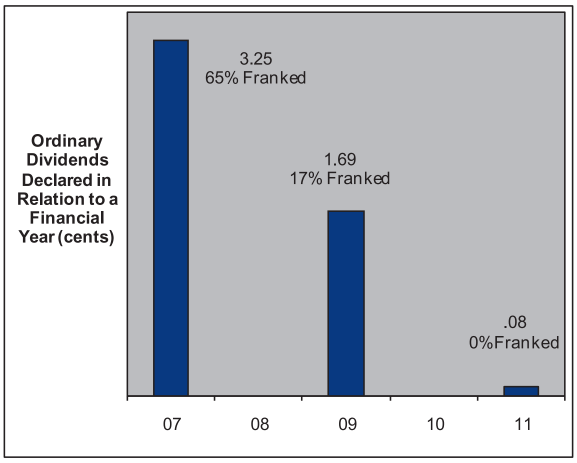
(1) DFMC administration costs (cents per litre) as a ratio to total milk volumes is calculated excluding non-recurring restructure and investment advisory costs.
(2) Under Australian International Financial Reporting Standards ('AIFRS'), dividends paid to members on ordinary shares are included as finance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

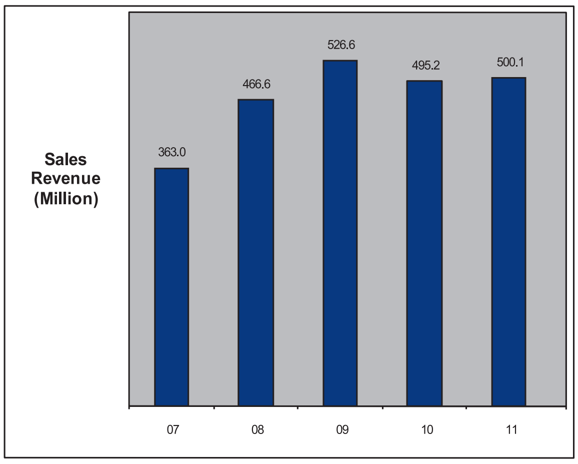

Total Farm Milk Intake Volume (ML)
1,064
986
972
1,042
936.0
07
08
09
10
11


Average Milk Volume Per Supplier (ML)
1.143
1.154
1.184
1.335
1.357
07
08
09
10
11


% Average Milk Price Increase
0.9
38.0
12.3
-6.3
-4.93
07
08
09
10
11


Suppliers Paid Quality Bonus (%)
42.9
37.3
39
35.9
31.7
07
08
09
10
11


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


Sales Revenue (Million)
363.0
466.6
526.6
495.2
500.1
07
08
09
10
11

# Chairman's Report

**MILK PRICES AND AFD**

2010/11 was the first year since the sale of the Dairy Farmers business to Lion (formerly named National Foods Limited) that DFMC had to negotiate new milk prices, since up to then prices were set in the 18 month and 30 month contracts by the transaction agreement at the sale of Dairy Farmers.

The price to farmers would now also be influenced by the Anticipated Full Demand (AFD) supply management model of Tier 1 (T1) and Tier 2 (T2) milk and T1 and T2 prices. The 30 month legacy farmers were not affected by AFD contracts but experienced the milk price changes.

Prior to the negotiation of milk prices DFMC negotiated Regional AFD volumes with Lion. This was critical to a supplier's level of T1 and/or T2 milk and all in all Regional AFDs were high and little T2 milk was paid. The real issue the Board had to deal with was not only the AFD model as a regional generalisation but concern about the impact on individual suppliers. This was ameliorated in several ways.

1. The 10% supply above contract principle, which the DFMC Board strongly defended.
2. An appeal process for those suppliers' severely affected by the AFD allocation model. This was a very objective and clinical exercise by the Board.
3. The "pro rata" concept, whereby shortfall of milk from some farmers who did not meet their contracts was allocated to those who supplied over their contracts on a proportional basis.
4. If monthly supply in total is less than the Monthly Regional AFD then all milk from all farmers, even those well over individual farm contracts, is T1 milk.

National Foods milk payment team were very helpful to our Executive Officer Greg Griffith in working through changes of processes in milk payment resulting from these milk value concepts.

The regional competitive pricing trend at the time was:

a) Down considerably in NSW based on prices paid by Lion to direct Lion suppliers and by Norco.

b) Down considerably in SEQ with Parmalat also signalling decreased pricing to farmers coming off contract and Norco having a lower competitive price.

c) In North Queensland's (FNQ) based on the SEQ domestic T1 pricing but on average saw little price decrease.

d) In the Southern region, climbing back from the very low prices of GFC impacted 2008/09.

These were the factors in our pricing discussions of 2010/11 and the result was that, coming off the high 2009/10 competitive pricing landscape and our "transaction" fixed prices, there was an overall pricing decrease.

Individual regions were affected in the following manner:

1. FNQ T1 price was the same as the northern states however the T2 price was the strongest in the Co-operative. The average paid price was the same as the previous year.
2. SEQ incurred no T2, however the paid price decreased by approximately 12%.
3. NSW as a region had little T2 but average prices decreased by 10%.
4. The Southern region had a 7% price decrease.

T2 prices were based on the best alternative commercial value allowing for logistics to the relevant factory. This led to very low T2 prices in NSW and SEQ; the only ameliorating fact being that very little milk was T2.

The prices as delivered still required strong negotiation from DFMC and the Board feels that it has, in 2010/11 delivered well to our suppliers in terms of the package outcome of price, regional AFD, per farm contract volumes and the low scale of T2 milk.

**SEASONAL CONDITIONS**

The decade long Eastern Australian drought finally broke in 2010/11. Seasons have returned to normal and part of that normalcy is the variation of the Australian climate, with short severe dry spells in some regions, floods, cyclones and sustained wet weather in others. The Nth Vic and SEQ floods and FNQ cyclone Yasi caused a lot of financial and personal strain for our suppliers. The impact of these episodes severely affects our farmers due to larger herds, more pressure on home grown feed and the need for and cost of purchased feed.

Milk supply trends in regions varied. FNQ saw a continuation of the long term decline and with the cyclone wreaking havoc in February the region's production decreased by 13%; SEQ production decreased by 6%; NSW did not hit anticipated volumes based on annual forecast; Central SA decreased by 12% whilst and West Vic/SA was stable. Nth Vic/Riv production improved in the 2nd half of the year as a result of the drought breaking, however production overall was down from the previous year. Farmer supplier numbers were stable except for FNQ where there was a 10% decline.

**THE RETAILER PRICE WAR**

On Australia day, 26th January 2011, the large national retailer Coles reduced the price of all generic, or private label milk, to $1.00 per litre right across Australia. With this came an advertising blitz of "Down, Down" and "30% price reductions". Other retailers soon followed suit.

All other stakeholders in the dairy supply chain immediately saw the damage this would do to margins in drinking milk. DFMC immediately involved itself in the campaign to publically highlight that this behaviour would damage the sustainability in the supply chain and would ultimately threaten farm gate milk prices. Your Directors had meetings with executives of both major retailers, with the ACCC and made a submission to the Senate Enquiry into the Dairy Industry and a presentation at the Senate Hearing.

The milk price war is ongoing. For Coles it has been a marketing strategy using the food staple, milk, to attract customers, generate traffic and be seen to have a value offer. Generic milk sales have increased. It is damaging the value of milk for all stakeholders and especially the value of branded and differentiated milk products which drive much of the returns in the industry. What should be a value chain from farm to consumer is now a chain with collapsed margins for all. In time the retailer will re-capture this margin.

## LION LOSS OF RETAILER CONTRACTS

Due to the dominance of the two major retailers, Woolworths and Coles, in the Australian grocery market, the drinking milk supply chain is highly dependent on, and highly exposed to, doing business with them. This can be seen from the impact of the milk wars, with 50% on milk sales going through the big two and 75% of that being private label milk, locked into contracts.

The risk of exposure came when our processor, Lion, lost the Woolworths private label contract in Queensland to Parmalat in September 2010. Lion, from our suppliers and their direct suppliers; now had a lot of milk without a market, and had to seek alternate processing. In FNQ some sense eventually prevailed and Lion re-commenced co-packing for Parmalat of the Woolworths milk. This was critical for our FNQ suppliers in terms of T1 milk off-take.

The impact of this loss of retailer contract on our farmers has occurred in July 2011, with a 30% reduction in SEQ farmers contracts; what was a region with no T2 milk in 2010/11 will now have considerable T2 milk.

Lion recently lost the NSW Woolworths Private Label milk supply contract which comes into effect in September 2011. NSW suppliers are experiencing a similar 30% reduction in contracts.

## DISPUTE RESOLUTION PROCESS WITH NATIONAL FOODS

In the process of determining Regional AFDs for FY 2012, DFMC and Lion could not come to mutual agreement. The "check and balance" of the dispute resolution process came into play and the parties met on two occasions for two day long sessions in front of a Barrister to resolve the matters.

The issues were Regional AFD volumes, the 10% above contract supply parameter and equitable treatment of the supply pool. Whilst preferring to not have matters of dispute, DFMC felt the process worthwhile in delivering strong market terms for our members.

## APPRECIATIONS

The Board extends our appreciation to Executive Officer Greg Griffith who has continued to work in the best interests of the Co-operative. Greg manages the DFMC relationship with Lion and the relationship between the members and the Directors and has been pivotal in establishing frameworks that allow the Board to deliver on our operational objectives. Keiryn Jackson continues to provide experience and invaluable support to Greg and this year she was rewarded with a permanent part-time position. 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; Yvette Laous, Nadia Genio, Tim Whitbourn and Sam Hy and the team in financial and Anton Baggerman in website support.

Our Regional team in Mal Maroske, Helen Whitelaw and Ron Page have continued in their efforts to represent DFMC at the farmgate and their hard work has been appreciated by the Board and members alike. I would also like to extend DFMC's appreciation to the Lion Farm Services team including Lucy Coward, Paul Rees and Greg Gilbert and their technical teams.

On Behalf of the Board I would also like to thank Alan Mathers who has decided not to renominate for a Director's position, for his great contribution to the dairy industry, in many roles over many years. Alan has always been in the Dairy Farmers representative system and became an inaugural director of DFMC joining the Board in 2004. Alan has worked tirelessly on behalf of DFMC members, he has been Chair of the Member Services and Communication Committee and he was instrumental in our negotiations with Lion on the sale of Dairy Farmers. We wish Alan well in his future endeavours.

I would like to thank the directors for their strong commitment to govern the Co-operative and to engage with and represent the members.

Our members have strongly supported the regional ward meetings. The Ward Representatives and our regional working groups and chairs have had an active year and continue to assist the board in the delivery of key messages both from a top down and grassroots up communication channel.

Yours Sincerely,

Chairman

Dairy Farmers Milk Co-operative

# Directors' Report

In accordance with a resolution of Directors, the Directors of Dairy Farmers Milk Co-operative Limited ('DFMC' or the 'Co-operative') present their report on the Co operative for the year ended 30 June 2011.

## 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
- J G Macarthur-Stanham
- A M Mathers
- D A McInnes
- T J Middlebrook
- P C Ness
- M P Roache

## 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 profit after income tax for the Co-operative amounted to $659,000 (2010: $5,305,000 loss).

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

## DIVIDENDS

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes to the state of affairs during the FY 2010/11.

## 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. 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 brings to the Co-operative extensive experience in commercial and management consulting including being the Business Review Weekly's Business Leader of the Year in 1990.

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

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

Since 1998 Mr Bastian has been a professional company director in a variety of agribusinesses including grains, wine,

wine grapes, meat and agricultural engineering. He has a degree in Business Administration from the University of South Australia.

**Duncan McInnes**

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

With more than 35 years experience as a dairy farmer, having originally purchased his dairy farm at age 19, Mr McInnes, in partnership with his two brothers, has increased milk production from 100,000 litres in 1980 to more than 4.3 million litres in 2011 from two farms.

**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 District 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.

**Peter Ness**

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

**John Macarthur-Stanham**

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

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

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**

Alan Mathers was appointed as a director of the Co-operative on 30 September 2004 and was a member of the DFMC executive negotiating committee at the time of the sale of ACF to National Foods.

Mr Mathers is currently an irrigation dairy farmer at Barham in New South Wales milking 300 cows and has more than 35 years' experience in dairy farming. He was appointed Deputy Chairman of the Co-operative in 2005.

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

**Trevor Middlebrook**

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

Mr Middlebrook holds a Diploma of Agriculture (TOCAL), he sits on the Mid North Coast Dairy Advance group, additionally he currently Chairs the Ready Future Dairy system which is a division of Dairy NSW.

**Michael Roache**

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

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

# Directors' Report

### COMPANY SECRETARY

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

### INDEMNIFICATION AND INSURANCE

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

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

### PROCEEDINGS ON BEHALF OF THE ENTITY

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

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

### ROUNDING OF AMOUNTS

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

## MEETINGS OF DIRECTORS

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

| | Board Meetings | | Audit, Finance and Governance | | Member Services and Milk Supply | | Ward and Farmer Development | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| Ian H Zandstra | 14 | 14 | - | - | - | - | - | - |
| Jeff E Ballon | 11 | 14 | - | - | 4 | 6 | 5 | 6 |
| John J Bastian | 13 | 14 | 6 | 6 | - | - | - | - |
| John G Macarthur-Stanham | 10 | 14 | 6 | 6 | - | - | - | - |
| Alan M Mathers | 12 | 14 | - | - | 6 | 6 | 5 | 6 |
| Duncan A McInnes | 13 | 14 | 6 | 6 | - | - | - | - |
| Trevor J Middlebrook | 14 | 14 | - | - | 6 | 6 | 6 | 6 |
| Peter C Ness | 13 | 14 | - | - | 5 | 6 | 6 | 6 |
| Michael P Roache | 13 | 14 | - | - | 6 | 6 | 5 | 6 |
| James B Geraghty | 14 | 14 | 6 | 6 | 6 | 6 | - | - |

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 2011 as required by section 307C of the Corporations Act 2001 is set out on page number 12.

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

**I H Zandstra**
Chairman

**J J Bastian**
Director

Sydney, 14 September 2011

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 in the first Board meeting following the AGM. Directors are generally subject to re-election every four years.

### Board responsibilities

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

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

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

## AUDIT, FINANCE AND GOVERNANCE COMMITTEE

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

The chairman attends all committees by invitation.

### Composition

The committee currently comprises:

John Bastian (Chair)
John Macarthur-Stanham
Duncan McInnes
James Geraghty

### Access and reporting

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

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

### Responsibilities

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

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

### External Audit Appointment and Supervision

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

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

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

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

## MEMBER SERVICES 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.

The chairman attends all committees by invitation.

### Composition

The committee currently comprises:

James Geraghty (Chair)
Alan Mathers
Jeff Ballon
Peter Ness
Michael Roache
Trevor Middlebrook

### Responsibilities

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

**Communication with Members**

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

- This annual report being distributed to all members.
- The annual general meeting, which members are encouraged to attend.
- The national convention which is held each year.
- Dairy Market Report which is circulated to all members.
- DFMC Dairy Reporter which is circulated to members via email on a weekly basis.
- The Chairman's Report which is circulated to all members.
- DFMC Website www.dfmc.org.au.
- Regular district meetings.

## WARD AND FARMER DEVELOPMENT COMMITTEE

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

The chairman attends all committees by invitation.

**Composition**

The committee currently comprises:

Trevor Middlebrook (Chair)
Alan Mathers
Jeff Ballon
Peter Ness
Michael Roache

**Responsibilities**

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

**Ward Development**

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

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

**Farmer Development**

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

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

## MILK PRICE AND AFD NEGOTIATION COMMITTEE

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

**Composition**

The committee currently comprises:

Ian Zandstra (Chair)
Alan Mathers
John Stanham
Duncan McInnes

**Access**

The committee maintains detailed records of competitive milk pricing, utilises pricing spreadsheets and engages in negotiations with Lion executives to establish the milk price and AFD for our regions. Additionally the committee has access to independent industry analysis and retail sales data in establishing the commercial needs of the processor.

**Responsibilities**

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

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

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

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 for the year ended 30 June 2011, 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
Chartered Accountants

A J Archer
Director - Audit & Assurance

Sydney, 14 September 2011

# Statement of Comprehensive Income

| For the year ended 30 June 2011 | Notes | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Sales revenue | 2 | **500,122** | 495,159 |
| Cost of sales | | **(500,122)** | (495,159) |
| **Gross profit** | | **-** | - |
| Aggregation fee revenue | 2 | **1,100** | 1,100 |
| Administration expenses | | **(1,385)** | (1,660) |
| Restructure and investment advisory costs | | **-** | (2,174) |
| **Net administration result** | | **(285)** | (560) |
| Investment revenue | | | |
| Dividend revenue – Equities | 2 | **366** | 131 |
| Interest revenue | 2 | **968** | 1,212 |
| Finance costs | | | |
| Financial institution and others | 3 | **(42)** | (16) |
| Other income | | | |
| Proceeds from legal claim | 2 | **361** | - |
| Realised growth mark to market | 2 | **22** | - |
| **Net investment and financing result** | | **1,675** | 1,327 |
| **Profit/(Loss) from continuing operations before income tax** | | **1,390** | 767 |
| Income tax (expense)/benefit | 4 | **(88)** | 416 |
| **Profit from continuing operations after income tax before member distributions** | | **1,302** | 1,183 |
| Members' dividends payments* - ordinary | 5 | **(735)** | (6,131) |
| Ex-member reinstatement declined | 3 | **181** | - |
| **Profit/(Loss) for the year** | 15 | **748** | (4,948) |
| Net gain/(loss) on revaluation of financial assets net of tax | | **268** | (357) |
| **Total comprehensive income for the year attributable to members of the co-operative** | | **1,016** | (5,305) |

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

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

# Statement of Financial Position

| As at 30 June 2011 | Notes | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 6 | **14,402** | 17,004 |
| Receivables | 7 | **287** | 1,061 |
| Other current assets | 8 | **12** | 13 |
| **Total current assets** | | **14,701** | 18,078 |
| | | | |
| **Non-current assets** | | | |
| Financial assets | 9 | **8,494** | 7,068 |
| Property, plant and equipment | 10 | **1** | 6 |
| Deferred tax assets | 11 | **564** | 719 |
| **Total non-current assets** | | **9,059** | 7,781 |
| | | | |
| **Total assets** | | **23,760** | 25,859 |
| | | | |
| **Current liabilities** | | | |
| Payables | 12 | **1,472** | 4,457 |
| Provisions | 13 | **36** | 14 |
| **Total current liabilities** | | **1,508** | 4,471 |
| | | | |
| Provisions | 13 | **8** | 4 |
| Deferred tax liabilities | 11 | **13** | 707 |
| Members' share capital* | 14 | **9,009** | 9,178 |
| **Total non-current liabilities** | | **9,030** | 9,182 |
| | | | |
| **Total liabilities** | | **10,538** | 13,653 |
| | | | |
| **Net assets** | | **13,222** | 12,206 |
| | | | |
| **Equity** | | | |
| Retained profits | 15 | **13,311** | 12,563 |
| Reserves | 18 | **(89)** | (357) |
| | | | |
| **Total equity** | | **13,222** | 12,206 |

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(i), 5 and 14.

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

# Statement of Changes in Equity

| For the year ended 30 June 2011 | Retained profits $'000 | Financial assets reverve $'000 | Total $'000 |
|---|---|---|---|
| **Balance at 1 July 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** |
| Profit attributable to the co-operative | 748 | - | **748** |
| Total other comprehensive income for the year | - | 268 | **268** |
| **Balance at 30 June 2011*** | 13,311 | (89) | **13,222** |

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital. Refer also to notes 1(i), 5 and 14.

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

# Statement of Cash Flows

| For the year ended 30 June 2011 | Notes | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **501,915** | 496,915 |
| Payments to suppliers, employees and directors | | **(503,822)** | (495,291) |
| Dividends received | | **319** | 131 |
| Interest received | | **968** | 1,212 |
| Dividends paid - ordinary shares | | **(735)** | - |
| Income tax paid | | **-** | - |
| **Net operating cash flows** | 23 | **(1,355)** | 2,967 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payment for investment in equities | | **(1,078)** | (7,500) |
| Loans repaid from farmers | | **-** | 420 |
| **Net investing cash flows** | | **(1,078)** | (7,080) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | **24** | 6 |
| Payment for share cancellation | | **-** | (22,381) |
| Repayment of share forfeit loans | | **(193)** | (1,036) |
| Dividends paid – former member | | **-** | (4,712) |
| **Net financing cash flows** | | **(169)** | (28,123) |
| | | | |
| **Net (decrease)/increase in cash** | | **(2,602)** | (32,236) |
| Cash at the beginning of the financial year | | **17,004** | 49,240 |
| **Cash at the end of the year** | 6 | **14,402** | 17,004 |

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

# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**(a) Basis of preparation**

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

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

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

**(b) Cash and cash equivalents** (note 6)

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

**(c) Receivables** (note 7)

**(i) Other receivables**

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

**(ii) Collectability**

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

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

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Co operative and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive income when incurred.

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

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

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

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

**(e) Impairment**

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

**(f) Payables** (note 12)

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

**(g) Borrowings**

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

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

# Notes to the Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(h) Employee benefits** (note 13)

**(i) Wages, salaries and annual leave**

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

**(ii) Long service leave**

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

**(iii) Retirement benefit obligations**

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

**(i) Members' share capital** (note 14)

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

**(j) Revenue recognition** (note 2)

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

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

Revenue is recognised for the major business activities as follows:

**(i) Sale of goods**

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

**(ii) Aggregation fee revenue**

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

**(iii) Dividends**

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

**(iv) Interest revenue**

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

**(k) Finance costs** (notes 3 and 5)

**(i) Dividend rate**

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

**(ii) Other finance costs**

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

**(l) Income tax (notes 4, 11)**

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

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

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2011.

**(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**

**3. Changes in accounting policies**

**3.1 Overall considerations**

The Co-operative has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Co-operative's financial statements for the annual period beginning 1 July 2010.

- Improvements to IFRSs – AASB 2010-03

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in note 3.2. An overview of standards, amendments and interpretations to the IFRSs and AASBs issued but not yet effective is given in note 3.3.

**3.2 Adoption of Improvements to IFRSs 2010 – ASB 2010-3**

The IASB has issued Improvements to IFRS 2010 (2010 Improvements) which was issued in Australia as AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project. Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of AASB 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The 2010 Improvements did not have a material impact on the Co-operatives financial statements.

**3.3 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Co-operative**

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

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

Certain other new standards and interpretations have been

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

issued but are not expected to have a material impact on the Group's financial statements.

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

The IASB aims to replace IAS 39 (AASB 139) Financial Instruments: Recognitions and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Co-operative. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

**(s) Financial instruments**

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

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

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

**I. 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. 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.

**IV. 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.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

**V. 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.

**VI. 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.

**VII. Financial liabilities**

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

Derecognition

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

**(t) Significant judgements in applying accounting 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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Revenue from continuing operations** | | |
| *Sales revenue* | | |
| Sales revenue – sale of goods to DFL (a) | **500,122** | 495,159 |
| | **500,122** | 495,159 |
| *Other administration and investment revenue* | | |
| Aggregation fee revenue (b) | **1,100** | 1,100 |
| Dividend revenue – Equities | **366** | 131 |
| Interest revenue – financial institutions and other | **968** | 1,212 |
| | **2,434** | 2,443 |
| **Total revenue from continuing operations** | **502,556** | 497,602 |
| **Other income** | | |
| Proceeds from legal claim[1] | **361** | - |
| Realised growth mark to market | **22** | - |

**(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 2011 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 | **735** | 6,131 |
| Ex-member reinstatement declined | **(181)** | - |
| Financial institutions and others | **42** | 16 |
| | **596** | 6,147 |

[1] Proceeds from legal claim of $361k were due to a supplier breaking contract by leaving 6 months before contract was over. This $361k was withheld from the supplier for sale of milk to DFMC back in 2008 and was brought to statement of comprehensive income during 2011.

## NOTE 3: EXPENSES (continued)

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit before income tax includes the following specific expenses (continued) | | |
| Depreciation – plant and equipment | **5** | 7 |
| Employee and director benefits expense | **602** | 561 |
| Defined contribution superannuation expense | **54** | 43 |

## NOTE 4: INCOME TAX

### (a) Income tax expense reconciliation

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit/(Loss) before income tax | **836** | (5,364) |
| Income tax expense/(benefit) calculated at 30% (2010: 30%) | **251** | (1,609) |
| Tax effect of amounts not deductible or (taxable) | | |
| Non deductible advisory fees | **-** | 2 |
| Franked amount of members' share capital payments | **(9)** | 302 |
| | **242** | (1,305) |
| Recognition of prior period tax losses not recognised in prior years | **(154)** | - |
| Current period tax losses not recognised | **-** | 889 |
| Income tax expense/(benefit) | **88** | (416) |
| Average effective tax rate | **(10.5%)** | (7.7%) |

### (b) Income tax expense analysis

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Deferred tax | | |
| Changes in deferred tax assets (Note 11) | **86** | (428) |
| Changes in deferred tax liabilities (Note 11) | **2** | 12 |
| | **88** | (416) |
| Current tax | **-** | - |
| Income tax expense/(benefit) | **88** | (416) |

### (c) Unrecognised tax losses

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Unused tax losses for which no deferred tax asset has been recognised | **13,880** | 14,390 |
| Unused capital tax losses for which no deferred tax asset has been recognised | **-** | - |
| Potential tax benefit at 30% | **4,164** | 4,317 |

# 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:

| | 2011 | 2010 |
|---|---|---|
| **(a) Dividends** | | |
| (i) Special dividends – recognised and paid during the financial year | | |
| Payment date | **10/11/2010** | - |
| Dividend per share | **$0.08** | - |
| Per cent franked | **0%** | - |
| Paid in cash | **735** | - |
| **Total ordinary dividends paid during the financial year** | **735** | - |
| (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** | **309** | 197 |

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 2011 or the previous financial year.

## NOTE 6: CASH AND CASH EQUIVALENTS

| | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | **14,402** | 17,004 |

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 6.25% (2010: 3.25% and 6.32%).

## NOTE 7: RECEIVABLES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Current | | |
| Other receivables | **287** | 1061 |

| | Gross Amount | Past Due and Impaired | Past Due but Not Impaired (Days Overdue) < 30 | 31-60 | 61-90 | > 90 | Within Initial Trade Terms |
|---|---|---|---|---|---|---|---|
| **2011** | $ | $ | $ | $ | $ | $ | $ |
| Other receivables | 287 | - | - | - | - | - | 287 |

| | 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 |

## NOTE 8: OTHER CURRENT ASSETS

| | 2011 | 2010 |
|---|---|---|
| Prepayments | **12** | 13 |

## NOTE 9: FINANCIAL ASSETS

| | 2011 | 2010 |
|---|---|---|
| Available for sale financial assets – shares in listed corporations | **8,494** | 7,068 |

**(a) Investment in equities**

DFMC approved the Audit & Finance committee to appoint Macquarie Private Wealth to invest $7.5 million in the Australian equities market in February 2010. For the year ended 30 June 2011, subsequent purchases of shares totalled $1.1m and proceeds from sale of shares totalled $0.3m. There are no fixed returns or fixed maturity dates attached to these investments.

## NOTE 10: PROPERTY, PLANT AND EQUIPMENT

| | 2011 | 2010 |
|---|---|---|
| Plant and equipment | | |
| At cost | **30** | 30 |
| Accumulated depreciation | **(29)** | (24) |
| | **1** | 6 |
| **(a) Movement reconciliation** | | |
| Carrying amount at the beginning of the year | **6** | 13 |
| Additions | **-** | - |
| Disposals | **-** | - |
| Depreciation | **(5)** | (7) |
| Carrying amount at the end of the year | **1** | 6 |

# Notes to the Financial Statements

**NOTE 11: DEFERRED TAX**

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Deferred tax assets | | |
| Amounts recognised in profit or loss | | |
| Accruals | **358** | 407 |
| Consulting and advisory costs | **108** | 154 |
| Employee provisions | **13** | 5 |
| Mark-to-market available for sale financial asset | **85** | 153 |
| Total deferred tax assets | **564** | 719 |
| | | |
| **(a) Movements** | | |
| Balance at the beginning of the year | **719** | 139 |
| Credited to the income statement | **(87)** | 427 |
| Credited to equity | **(68)** | 153 |
| (Under)/Over in prior year | **-** | - |
| Tax losses derecognised during the current year | **-** | - |
| Balance at the end of the year | **564** | 719 |
| | | |
| **(b) Timing of recovery** | | |
| To be recovered | | |
| Within 12 months | **456** | 565 |
| After 12 months | **108** | 154 |
| | **564** | 719 |
| | | |
| Deferred tax liabilities | | |
| The balance comprises temporary differences attributable to: | | |
| Unearned revenue | **14** | 12 |
| Total deferred tax liabilities | **14** | 12 |
| Total net deferred | **550** | 707 |
| | | |
| **(a) Movements** | | |
| Balance at the beginning of the year | **12** | - |
| Charged (Credited) to the income statement | **1** | 12 |
| Balance at the end of the year | **13** | 12 |
| | | |
| **(b) Timing of settlement** | | |
| To be settled | | |
| Within 12 months | **14** | 12 |
| | **14** | 12 |

**NOTE 12: PAYABLES**

| | | |
|---|---|---|
| Trade creditors and accruals | **1,472** | 4,457 |

## NOTE 13: PROVISIONS

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Current | | |
| Employee benefits | **36** | 14 |
| Non-current | | |
| Employee benefits | **8** | 4 |
| Balance at the beginning of the year | **18** | 5 |
| Charged to the statement of comprehensive income | **32** | 17 |
| Amounts used | **(6)** | (4) |
| Balance at the end of the year | **44** | 18 |

## NOTE 14: MEMBERS' SHARE CAPITAL

| | Number of Shares | | Nominal Value | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | # | # | $'000 | $'000 |
| Opening balance – shares of $1 each (fully paid) | **9,177,775** | 32,541,122 | **9,178** | 32,541 |
| Shares issued | **24,612** | | **24** | |
| Cash | **-** | 54,300 | **-** | 54 |
| Shares repurchased – cash (b) | **-** | - | **-** | - |
| Shares forfeited (c) | **(192,935)** | (1,036,581) | **(193)** | (1,036) |
| Share cancellation (e) | **-** | (22,381,066) | **-** | (22,381) |
| Closing balance – shares of $1 each (fully paid) | **9,009,452** | 9,177,775 | **9,009** | 9,178 |
| Unallocated members' contribution (d) | | | **-** | - |
| **Balance at the end of the year** | **9,009,452** | 9,177,775 | **9,009** | 9,178 |

### 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.

# Notes to the Financial Statements

## NOTE 14: MEMBERS' SHARE CAPITAL (continued)

### (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

The Co-operative had no compulsory share cancellations for the year ended 30 June 2011 (2010: 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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at the beginning of the year | **12,563** | 17,511 |
| Profit/(Loss) attributable to members | **748** | (4,948) |
| Balance at the end of the year | **13,311** | 12,563 |

## 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 2011.

## 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

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Amount received, or due and receivable by Grant Thornton for audit of the financial report. | **13,200** | 12,600 |
| Amount received, or due and receivable by Grant Thornton for other services. | **7,000** | 12,600 |
| Amount received by PricewaterhouseCoopers for other services. | **-** | 5,000 |

## 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, A M Mathers, D A McInnes, T J Middlebrook, P C Ness, M P Roache and I H Zandstra (Chairman).

### (b) Executive Officer

DFMC appointed an Executive Officer in February 2009. The compensation of the Executive Officer is included within the key management personnel compensation disclosed in note 20(d).

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

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

The board commits to fair and responsible remuneration policies by ensuring that the level and composition of remuneration packages recognises market levels and is sufficient to attract and retain motivated directors. The focus of the board is on the long term strategic direction and overall performance of the Co-operative. As a consequence, director remuneration is not directly related to short-term results.

The board engaged independent consultancy company Mercer to assist in establishing the Executive Officer remuneration, taking into account reasonable market remuneration for the role and responsibilities.

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **(d) Key management personnel compensation** | | |
| Short-term employment benefits | **601,738** | 561,581 |
| Post-employment benefits (superannuation) | **54,157** | 42,765 |
| Total key management personnel compensation | **655,895** | 604,346 |

# Notes to the Financial Statements

## NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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*

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 (2010: $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. 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**

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit/(Loss) attributable to members | **748** | (5,305) |
| *Non cash items in operating profit* | | |
| Depreciation expense | **5** | 7 |
| Write- back of litigation claims | **(361)** | - |
| Write-back of former members claims | **(181)** | - |
| Finance costs – dividends paid former member | **-** | 4,712 |
| | | |
| Movement in assets and liabilities | | |
| Decrease/(increase) in other assets | **1** | |
| Decrease/(increase) in net working capital | **-** | 3,988 |
| Decrease/(increase)in net tax balances | **-** | (435) |
| Decrease/(increase) in deferred tax | **88** | - |
| (Decrease)/increase in payables and accruals | **(2,455)** | |
| Decrease/(increase) in receivables | **774** | - |
| Increase/(decrease) in employee provisions | **26** | - |
| Net cash inflow/(outflow) from operating activities | **(1,355)** | 2,967 |

Shares forfeited during the year totalling $0.193 million (2010: $1.036 million) were transferred/paid from members' share capital.

**NOTE 24: FINANCIAL RISK MANAGEMENT**

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

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

**NOTE 24: FINANCIAL RISK MANAGEMENT (continued)**

At 30 June 2011 the Co-operative's financial assets and liabilities are as follows:

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 6 | 14,402 | 17,004 |
| Loans and receivables | 7 | 287 | 1,061 |
| Available-for-sale financial assets: | | | |
| - at fair value: | | | |
| - listed investments | 9 | 8,494 | 7,068 |
| | | | |
| Total financial assets | | 23,183 | 25,133 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost: | | | |
| - trade and other payables | 12 | 1,472 | 4,457 |
| **Total financial liabilities** | | 1,472 | 4,457 |

**Liquidity risk**

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

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

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

— monitoring undrawn credit facilities;

— obtaining funding from a variety of sources;

— maintaining a reputable credit profile;

— managing credit risk related to financial assets;

— only investing surplus cash with major financial institutions; and

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

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

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

## NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

*Financial liability and financial asset maturity analysis*

| | Within 1 Year | | 1 to 5 Years | | Over 5 Years | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011 $'000** | **2010 $'000** | **2011 $'000** | **2010 $'000** | **2011 $'000** | **2010 $'000** | **2011 $'000** | **2010 $'000** |
| **Financial liabilities due for payment** | | | | | | | | |
| Trade and other payables (excluding est. annual leave) | **1,472** | 4,457 | **-** | - | **-** | - | **1,472** | 4,457 |
| Total contractual outflows | **1,472** | 4,457 | **-** | - | **-** | - | **1,472** | 4,457 |
| Less bank overdrafts | **-** | - | **-** | - | **-** | - | **-** | - |
| Total expected outflows | **1,472** | 4,457 | **-** | - | **-** | - | **1,472** | 4,457 |
| **Financial assets — cash flows realisable** | | | | | | | | |
| Cash and cash equivalents | **14,402** | 17,004 | **-** | - | **-** | - | **14,402** | 17,004 |
| Trade, term and loan receivables | **287** | 1,061 | **-** | - | **-** | - | **287** | 1,061 |
| Other investments | **-** | - | **-** | - | **8,494** | 7,068 | **8,494** | 7,068 |
| Total anticipated inflows | **14,689** | 18,065 | **-** | - | **8,494** | 7,068 | **23,183** | 25,133 |
| Net (outflow)/inflow on financial instruments | **13,217** | 13,608 | **-** | - | **8,494** | 7,068 | **21,711** | 20,676 |

*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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Banks | **2,095** | 2,054 |
| Commercial services & supplies | **366** | 301 |
| Diversified financials | **996** | 246 |
| Energy | **566** | 469 |
| Food & drug retailing | **775** | 734 |
| Health care equipment & services | **537** | 377 |
| Insurance | **546** | 578 |
| Materials | **1260** | 931 |
| Pharmaceuticals & Biotechnology | **255** | 251 |
| Real estate | **388** | 417 |
| Software & services | **167** | 201 |
| Telecommunication services | **137** | 154 |
| Transportation | **134** | *152* |
| Utilities | **214** | 203 |
| Cash Management Account | **58** | 0 |
| | **8,494** | 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 2011** | | |
| +/- 2% in interest rates | **+/- 308** | +/- 308 |
| +/-10% in listed investments | **N/A** | +/- 810 |
| **Year ended 30 June 2010** | | |
| +/- 2% in interest rates | **+/- 479** | +/- 479 |
| +/-10% in listed investments | **N/A** | +/- 317 |

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.

| | | 2011 | | 2010 | |
|---|---|---|---|---|---|
| | | Net Carrying Value | Net Fair Value | Net Carrying Value | Net Fair Value |
| | Footnote | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | (i) | **14,402** | **14,402** | 17,004 | 17,004 |
| Trade and other receivables | (i) | **287** | **287** | 1,061 | 1,061 |
| | | **14,689** | **14,689** | 18,065 | 18,065 |
| **Available-for-sale financial assets:** | | | | | |
| - at fair value: | | | | | |
| - listed investments | | **8,494** | **8,494** | 7,068 | 7,068 |
| Total available-for-sale financial assets | (iii) | **8,494** | **8,494** | 7,068 | 7,068 |
| **Total financial assets** | | **23,183** | **23,183** | 25,133 | 25,133 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (i) | **1,472** | **1,472** | 4,457 | 4,457 |
| Members' share capital | (iv) | **9,009** | **9,009** | 9,178 | 9,178 |
| **Total financial liabilities** | | **10,481** | **10,481** | 13,635 | 13,635 |

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).

| 2011 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Available-for-sale financial assets: | | | |
| - listed investments | 8,494 | - | - |
| | 8,494 | - | - |

| 2010 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Available-for-sale financial assets: | | | |
| - listed investments | 7,068 | - | - |
| | 7,068 | - | - |

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 or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

## NOTE 26: CO-OPERATIVE DETAILS

The registered office and principal place of business is:

Quad 1
8 Parkview Drive
Sydney Olympic Park NSW 2127

# Directors’ Declaration

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

(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 2011 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** | **J J Bastian** |
| Chairman | Director |

Sydney, 14 September 2011

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

We have audited the accompanying financial report of Dairy Farmers Milk Co-operative (the "Co-operative"), which comprises the statement of financial position as at 30 June 2011, 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 of the Co-operative.

### Directors responsibility for the financial report

The Directors of the Company-operative are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards 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.

### 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**

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

**Auditor's opinion**

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

a giving a true and fair view of the Co-operative's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

**Report on other legal and regulatory requirements**

In our opinion, the financial report of Dairy Farmers Milk Co-operative's gives a true and fair view of the Co-operative's financial position as at 30 June 2011 and of its 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
Chartered Accountants

A J Archer
Director - Audit & Assurance

Sydney, 14 September 2011