BEGA CHEESE LIMITED
ANNUAL REPORT 2016

Bega

A special thanks to the staff, suppliers and customers whose images we have used through the report to illustrate relevant facts of our business. They represent the many people that together make Bega Cheese Group the successful company it is today.

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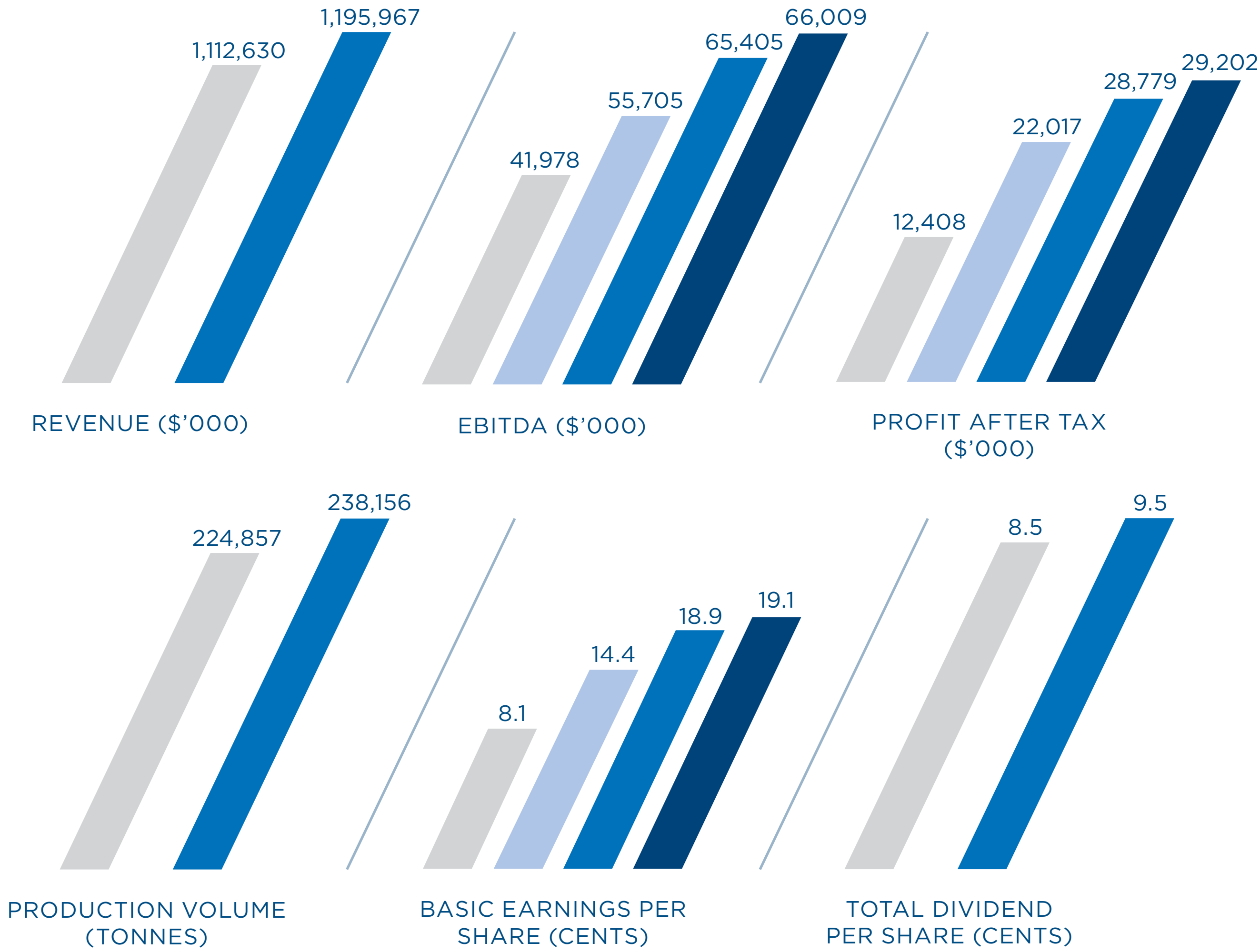
The sustainability and growth program has facilitated multiple improvements on farm including 20 land purchases, 55 irrigation system upgrades, and 16 new and upgraded dairies.

The wonderful people who work for Bega Cheese and Tatura feel a great commitment to their communities as well as to the Group.

/ KEY HIGHLIGHTS



**Normalised results exclude the impact of significant events occurring during the year.*

/ EXECUTIVE CHAIRMAN'S REVIEW

In a year of continued low commodity prices, significant competition in Australian and international markets, farm gate milk pricing turmoil and some late volatility in infant nutritional demand, I am pleased to report a very stable result from Bega Cheese Group. A 7.5% revenue increase to $1,196.0 million is reflective of our business mix and continued goal of adding more value to the dairy products we manufacture. The increase in revenue and an improved overall margin performance saw Bega Cheese Group deliver a statutory profit after tax of $28.8 million, being an increase of 131.9% on FY2015 and a normalised profit after tax of $29.2 million, being a 32.6% increase on FY2015. Earnings per share has increased to 18.9 cps. The improved profit performance is reflected in an increase in our full year dividend to 9.5 cps.

Bega Cheese Group has a strong balance sheet with net debt at the end of FY2016 of $53.1 million, being a reduction of $5.6 million on FY2015. The business continues to invest in capacity and efficiencies in its key platforms with capital expenditure amounting to $34.0 million. Bega Cheese Group also invested in capability in its newly created Bionutrients platform and in the development of our partnership with Blackmores Limited (Blackmores).

Barry Irvin AM, Executive Chairman

It has been a tumultuous year in the Australian dairy industry. Significant increases in global dairy production particularly in Europe, ongoing Russian sanctions and a decrease in dairy commodity imports into China all contributed to a shift in global supply and demand balance and further downward pressure on global dairy prices.

It is important to recognise that a challenging year was made a tumultuous one following a significant profit downgrade and milk price reduction by Australia's largest milk processor Murray Goulburn. Murray Goulburn's profit downgrade and their decision to significantly reduce the milk price paid to their dairy farmers very late in FY2016 created unprecedented turmoil and headlines across the country. Murray Goulburn price reductions to farmers were then followed by Fonterra and others in the Australian dairy industry taking similar actions.

I am pleased to report that the Group did not decrease its announced FY2016 milk price to farmers. We took the view that the opening FY2016 milk price we announced to farmers and held for 10 months of the year represented a commitment that we were not prepared to break for the last two months. As is always the case, we take a long term strategic view to ensure we have a sustainable milk supply and are the company of choice for Australian dairy farmers.

In a challenging year it is very important to maintain a strategic compass. The Group has continued to invest in our key platforms with major infrastructure improvements and new capacities added in shredded cheese, at our Ridge Street facility in Bega, cream cheese retail and food service packaging capacity at Tatura and new blending facilities in our Derrimut infant formula canning facility. In addition Bega Cheese Group has come to the point of requiring new and more efficient information technology and is undertaking a major investment in an Enterprise Resource Planning system. This new system will be progressively rolled out across the business during the second half of FY2017 and will ultimately result in improved business information, integration, efficiencies and decision making.

While dairy commodity markets were creating challenges for dairy companies around the world in FY2016, there continued to be strong demand for infant formula and growing up milk powders. Australia experienced a major lift in demand for infant formula, follow on and toddler products. This demand benefited our business and led to important initiatives in our nutritional platform including increasing the capacity allocation to our long term customer Bellamy's and forming Bemore, a joint operation with Blackmores, for the development of life stage nutritional products commencing with infant formula, follow on and toddler products with Bega Cheese Group and Blackmores sharing equally in the management, marketing, selling and distribution of co-branded Blackmores/Tatura infant and other dairy based nutritional products.

The Bemore joint operation is an excellent example of two companies recognising that their strengths could be combined to create value. Blackmores with their strong performance in the Asian markets, excellent brand recognition in the health space both in Australia and internationally and a significant track record in building brands and consumer trust combined perfectly with Tatura Milk Industries' over 20 years of experience producing infant formula and growing up milk powders. Tatura's long history and detailed knowledge of infant formula products and the capacity to source high quality sustainably produced milk from our dairy farmers sees the Bemore joint operation uniquely positioned to create Australian produced formula for babies and toddlers in Australia and across Asia.

The Bemore joint operation is a long term one and is intended to extend to nutritional products across all life stages in the future. The alliance will continue to invest in building the brand and new product development with the ambition of building a solid foundation for the business in Australian and Asian markets.

Bega Cheese Group has always believed the best approach to building value and managing risk is by combining long term experience and industry knowledge with new approaches and ideas

The Group has been busy preparing for the transition of the Coles own brand cheese contract by both seeking new business in Australia and internationally to replace the Coles volume and making plans to redirect milk to other high value products. The five year Coles contract has been a successful one and the importance of a one-year notice period has been demonstrated with Bega Cheese Group preparing to complete the transition at the expiry of the contract in January 2017.

Subsequent to the end of FY2016 the Group was pleased to announce that it will be supplying Woolworths Supermarkets a significant component of their own label cheese from January 2017. Our experience and capability in cheese supply and commitment to customer service were important factors in securing this new business. We look forward to strengthening our relationship with Woolworths and assisting them to grow their cheese category.

Bega Cheese Group has long recognised the important position it holds in the regional communities we operate in. In addition to the direct support that the Group provides to charities and organisations seeking to assist others, we also host two corporate events to both showcase the beautiful regions we operate in to our Australian and international customers and suppliers and also ask them to join us in raising funds to assist local charities. These events are organised solely by our staff. The wonderful people who work for Bega Cheese and Tatura feel a great commitment to their communities as well as to the Group. It is with great pride that I thank them not only for the work they do for Bega Cheese Group but for the contribution they make to the community.

Bega Cheese Group has always believed the best approach to building value and managing risk is by combining long term experience and industry knowledge with new approaches and ideas. Our experienced executive and leadership teams have done an excellent job of guiding the business through a tumultuous year.

Bega Cheese Group has been fortunate enough to have one of Australasia's leading and most experienced dairy industry executives, Aidan Coleman as Chief Executive Officer (CEO) for the past five years. Aidan has decided to retire in early 2017. Aidan has made a great contribution to the Group across all facets of our business and continues to be highly energised as we focus on growing our customer base, improving and building on our high quality manufacturing infrastructure, developing the skills of our staff and strengthening our relationships with our suppliers. On behalf of all at Bega Cheese Group I would like to thank Aidan for his great contribution to the business, we wish Aidan, Jenny and the family all the best for the future.

/ EXECUTIVE CHAIRMAN'S REVIEW

The Group is currently working through a recruitment process and expects to make an announcement on Aidan's replacement early in calendar year 2017. Aidan will stay with the business until that time and will be assisting us with the succession.

While there are challenges in the global markets and a greater degree of volatility in the value added segments of our business I remain positive regarding the opportunities in the Australian and international market place. Global markets remain low however analysts are expecting improvement in calendar year 2017 and farm gate milk pricing is now more reflective of market returns. While FY2017 will have its share of challenges the fundamentals of the industry and our business platforms remain very sound.

Bega Cheese Group will continue to invest in our business platforms and remain alert to corporate opportunities that align with our strategic goals. The focus of the business remains to grow globally relevant and competitive business platforms. Investment, rationalisation and alliances will be important in meeting these goals.

The market environment is ever changing and as has been demonstrated this year, dairy is a truly global business in which market supply and demand balance can quickly change. The Group is always alert to these changes and has long term strategies to deal with them which has been demonstrated in this year's business performance.

While capability and market understanding are important, the business environment we operate in is also important to our global competiveness. Across the supply chain, from investment in research, development and extensions to create productivity gains on farm to the industrial environment we operate in and the infrastructure we utilise, government has a role to play. Issues such as water policy, infrastructure investment including electricity, roads, rail, port, dams and the implementation of trade agreements are all issues that government must necessarily involve themselves in.

As we are all aware the current political environment is not one that is conducive to change. I would however comment that it is vitally important that those in the political process regardless of their leanings focus on the key elements of investment, trade and change that will help build Australia's global competitiveness rather than see the country fall further behind in the fast moving and fast changing world of global trade. We are a trading nation with a great many opportunities and wonderful resources. We will be successful, because we are able to deliver to customers, wherever they might be in the world, product they want to buy at a price that is comparable with many of our international competitors.

FY2016 will be remembered in Australia and in many parts of the industry and markets for all the wrong reasons. I am pleased that Bega Cheese Group has navigated this challenging year and successfully managed the risks while also recognising and taking opportunities. The experience and significant knowledge of the Board has been of great value to the Group and me personally as we have navigated our way through the year. I would like to acknowledge the Board's efforts and contributions and also thank our customers, suppliers, staff and shareholders for their ongoing support.

Barry Irvin AM
Executive Chairman
24 August 2016

The Bega brand is a household name in Australia. Our brands and products are gaining popularity worldwide, with an average of 400 shipping containers exported per month to over 70 destinations across Asia, Middle East and Europe.

9.3 billion consumer serves of dairy products are produced by Bega annually.

/ FEATURE ON NUTRITIONALS

The Group's nutritional business is the fastest growing product category in our portfolio, generating strong revenue growth in recent years. While the spotlight is on current market opportunities and achievements, the foundations of the current success were laid over 20 years ago and have been building ever since.

The first step into the nutritionals category came in 1993, with the commissioning of a new spray drying plant at Tatura, capable of producing bulk early childhood nutritional powder (including infant formula). Our journey is linked with the success of our customers, with long term collaborative partnerships a key part of how the business has evolved. One of the first of these was Megmilk Snow, who commissioned a canning plant in 1993 next to our Tatura plant, to convert the bulk powder we produced into retail ready products for Asian markets. Megmilk Snow still operate this canning plant today.

Organic products that now command significant market share were a small, emerging product segment in the early 2000s. Bega Cheese Group started producing organic early childhood nutritional powder for Bellamy's in 2006, at that stage a small start-up company based in Tasmania. At the time we had no internal production capability for retail ready products, so Bega Cheese Group developed the supply chain accreditation, regulatory compliance and formulation expertise to enable direct supply of retail ready products.

The growth in nutritional markets in Asia was heating up towards the end of the decade. To position the Group to exploit this market growth, a second spray dryer initially commissioned in 2002, was upgraded for wet mix capability in 2008. Following this upgrade we formed a ten year supply agreement with Mead Johnson, one of the world's leading nutritional companies. This supply relationship developed into a close alliance and involves Mead Johnson basing permanent employees at Tatura.

It became evident that to continue supporting the growth of existing customers and maintain regulatory access to markets, we needed to establish our own canning capability. In 2014, Bega Cheese Group commissioned the Derrimut powder blending and canning facility with state of the art packing and blending technology and gained registration from the Certification and Accreditation Administration of China (CNCA), allowing us to export to China.

Up to this stage, we were still operating as a contract manufacturer. The successful commissioning of the Derrimut facility enabled Bega Cheese Group to expand into branded products. In 2015, Bega Cheese Group and Blackmores announced the Bemore Partnership, which earlier this year launched a new range of nutritional products for markets in Asia and Australia.

In 2016 we saw continued positive trends and delivered strong revenue growth, despite uncertainty regarding regulatory changes in China. These changes are expected to reduce the number of foreign and domestic brands that can be sold in mainland China and through cross border e-commerce. This is generally a positive move for established producers, ensuring food safety, brand integrity and consumer confidence is maintained. The Group is well positioned to operate in accordance with these changes.

As we look forward, the growth opportunities across Asia and Australia are broader than just early childhood nutritional products. Growth has been highest in the so called bookends of the age spectrum; early childhood and senior age groups.

For early childhood nutritional products, the major focus has been on China and for good reason. The market in China at 800,000 tonnes is the largest in the world and its appetite for imported product can be felt in Australia, for example when the retail shelves in our supermarkets and pharmacies were emptied of popular brands last November during the on-line singles day. Growth in the Chinese market is expected to continue, with positive underlying factors making this market attractive over the longer term. China is a country driven by changing demographics, many of which are as a result of continuing industrialisation. These changes have particular relevance for early childhood nutritional products with people relocating from rural areas to the cities and the rise of China's middle class. Usage of early childhood nutritional products is higher in urban areas and rising incomes means imported premium products become more affordable to more carers. Between 1990 and 2016, China's urban dwellers have risen from 26% to 56% of the population and now number 799 million people. By 2030 this proportion is expected to increase to 68%. Coupled with this is rising average personal disposable income, predicted to increase 41% from 2015 to 2020.

The next largest market in Asia is Indonesia, with a population of 257 million people. While it is currently about 15% of the size of the China market by value, it is expected to grow strongly, underpinned by a comparatively high birth rate and a young population. It is also expected to undergo similar increases in the proportion of the population living in urban areas, from approximately 55% today to a predicted 63% by 2030. Increasing urbanisation also increases consumption rates, due to higher participation in the workforce by women and increasing disposable incomes.

In the senior age groups, it is again demographic changes playing a key role. In the next few years the world will reach a new milestone. More people will be aged over 65 years than children aged under five years. The challenges to health systems in countries as diverse as Australia, Japan and China will be in treating non communicable disease and health issues related to aging, lifestyle and diet choices. Coupled with this is the wellness trend, with adults wanting to maintain active lifestyles as they mature and looking for products that will support them in doing so.

Dairy based nutrition fits well with these growth areas. It is well researched, widely supported and seen as a credible nutritional carrier for other health supporting ingredients. Powder products are also often the preferred format, utilising blending technology that aligns with Bega Cheese Group's capabilities.


Aidan Coleman, Chief Executive Officer

/ CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

BUSINESS OVERVIEW AND INDUSTRY DYNAMICS

Bega Cheese Group is very pleased to deliver a number of positive outcomes for its stakeholders in FY2016. Against a backdrop of many challenges and intense competition the Group has:

- generated top line revenue growth
- improved financial performance
- maintained its strong balance sheet while investing for the future
- provided dividend growth and improved shareholder value
- built on partnerships with its valued customers
- maintained the trust of and support from its valued milk suppliers
- preserved credibility as a leader in the Australian dairy industry.

While the Australian dairy industry encountered considerable upheaval in FY2016, Bega Cheese Group's achievements are a great reflection of its culture and experience as it remained focussed on essential commercial outcomes in the face of significant distractions. In a year of global oversupply, weak demand and subsequent depressed dairy commodity pricing the Group continued to leverage off its core strengths as it delivered both top-line revenue and bottom-line profit growth.

FY2015 presented Australian milk sellers with highly favourable conditions as milk prices remained above returns reasonably available for milk solids in that year, with Bega Cheese Group commenting on this dis-link in presenting the 2015 Annual Report. Whilst the industry and the Group experienced a reduction in opening milk prices coming into FY2016 global dairy markets remained weak and the dis-link between returns and the milk price continued throughout FY2016.

Ultimately milk prices paid by Australia's largest milk purchasers proved to be significantly distorted from the reality of global dairy commodity returns, resulting in a massive correction in April and May 2016 to milk prices for the majority of Australian dairy farmers. However, the resilience of its strategic plan and business model meant that Bega Cheese Group was able to maintain its opening milk price during FY2016 while returning its earnings trajectory to that experienced up to FY2015.

A core pillar of the Group's commercial strategy is to optimise returns from the various streams of milk solids from liquid milk. While this generates improved returns, the Group is still exposed to the global returns for skim milk powders, which remained below the value of that milk component. This is an issue facing most dairy processors and a core strategic priority for the Group is to identify product and market opportunities that will reduce skim milk powder as a percentage of its total product portfolio moving forward.

HIGHLIGHTS FROM REVIEW OF OPERATIONS

During FY2016 Bega Cheese Group achieved the following key highlights:

- generated revenue of $1,196.0 million, being an increase of 7.5% on the prior period against a backdrop of continued lower dairy commodity prices in FY2016 and volatile competitor behaviour
- improved gross margin as the Group focusses on higher value-add products within its product mix
- continued focus on conversion costs as manufacturing volumes increased and product mix changed
- increased utilisation of the Derrimut infant and nutritionals canning and blending facility with the plant operating primarily on 24 hours per day, seven days per week since early August 2015
- launched the Group's Bionutrients platform, appointed Matthieu Arguillere as General Manager Bionutrients and progressed a detailed review of business opportunities in this area
- on 2 July 2015 announced an amendment to the infant formula supply agreement with Bellamy's Australia Limited (Bellamy's), increasing the Group's total volume to be sold to this valued business partner
- on 29 October 2015 announced the formation of a joint operation with Blackmores in which the Group and Blackmores share equally in the branding, selling, marketing and distribution of branded infant and nutritionals formula in the domestic and export markets
- on 16 January 2016 officially launched the co-branded Blackmores/Tatura infant formula range and commenced distribution, initially through chemist outlets in Australia and then extending to international markets and domestic retail chains in the lead up to 30 June 2016
- managed its business to enable it to support its milk suppliers by holding opening milk prices for FY2016 even though other major purchasers of Australian milk announced significant milk price decreases and complex loan obligations in April and May 2016, which were followed in part by many in the Australian dairy industry
- maintained the Group's commitment to sustain and grow its milk supply over time building goodwill and trust as it supported its milk suppliers in extremely difficult on-farm circumstances.

REVIEW OF FINANCIAL PERFORMANCE

As in prior years, the Group will report on both the statutory result and the normalised result for FY2016 compared to the prior year, with the focus of commentary being on the normalised result, representing the continuing operations of the Group.

GROUP STATUTORY RESULT FY2016

On a statutory reporting basis, the Group generated:

- earnings before interest, tax, depreciation and amortisation (EBITDA) of $65.4 million, compared to $42.0 million in FY2015, being an increase of 55.8%
- earnings before interest and tax (EBIT) of $43.5 million compared to $19.8 million in FY2015, being an increase of 120.1%
- profit before tax (PBT) of $39.9 million, compared to $16.4 million in FY2015, being an increase of 142.8%
- profit after tax (PAT) of $28.8 million, compared to $12.4 million in FY2015, being an increase of 131.9%
- earnings per share (EPS) of 18.9 cents, compared to 8.1 cents in FY2015, being an increase of 131.9%.

The improvement in these key statutory financial metrics are a very positive outcome for the Group.

GROUP NORMALISED RESULT FY2016

The normalising adjustment in FY2016 related to the Milk Sustainability and Growth Program, which was commented on in detail in the 2015 Annual Report. In FY2016 the net cost of the Milk Sustainability and Growth Program was $0.6 million, comprising final payments to suppliers under the program and program management costs, compared to $13.7 million in FY2015.

The significant majority of the program was accounted for in FY2014 and FY2015 and no material normalising adjustments are expected in relation to the program beyond FY2016.

On a normalised basis, the Bega Cheese Group generated:

- EBITDA of $66.0 million, compared to $55.7 million in FY2015, being an increase of 18.5%
- EBIT of $44.1 million compared to $33.5 million in FY2015, being an increase of 31.7%
- PBT of $40.5 million, compared to $30.2 million in FY2015, being an increase of 34.3%
- PAT of $29.2 million, compared to $22.0 million in FY2015, being an increase of 32.6%
- EPS of 19.1 cents, compared to 14.4 cents in FY2015, being an increase of 32.6%.

The Group is pleased with the strong normalised financial performance in FY2016, given the difficult conditions affecting the Australian and international dairy industries and the Group's decision not to decrease the price paid to suppliers for milk following drastic actions taken by others in the industry in the last quarter of FY2016.

The Group's quality management systems are designed to control inputs and activities through the entire supply chain from procurement of ingredients to delivery of products to the customer. Bega Cheese Group is quality audited more than 50 times per year by different customers and independent authorities.

The Group produced over 238,000 tonnes of product across our six sites in FY2016, which is an increase of 5.9% over the prior year.

/ CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

FINANCIAL PERFORMANCE 2016

The table below demonstrates the movement between the statutory reporting performance and the normalised performance for the Group in adjusting for Milk Sustainability and Growth Program costs.

CONSOLIDATED	Per Financial Statements $'000	Milk Sustainability and Growth outcome $'000	Normalised outcome $'000
Year ending 30 June 2016			
Revenue	1,195,967	-	1,195,967
Cost of sales	(1,042,595)	604	(1,041,991)
Gross profit	**153,372**	**604**	**153,976**
Other income and expenses	(87,967)	-	(87,967)
EBITDA	65,405	604	66,009
Depreciation, amortisation and impairment	(21,909)	-	(21,909)
EBIT	43,496	604	44,100
Finance costs	(3,596)	-	(3,596)
Profit before income tax	**39,900**	**604**	**40,504**
Income tax expense	(11,121)	(181)	(11,302)
Profit for the year	**28,779**	**423**	**29,202**
Gross margin – percentage	**13%**		**13%**
Basic earnings per share – cents	**18.9**		**19.1**
Year ending 30 June 2015			
Revenue	1,112,630	-	1,112,630
Cost of sales	(991,538)	13,727	(977,811)
Gross profit	**121,092**	**13,727**	**134,819**
Other income and expenses	(79,114)	-	(79,114)
EBITDA	41,978	13,727	55,705
Depreciation, amortisation and impairment	(22,214)	-	(22,214)
EBIT	19,764	13,727	33,491
Finance costs	(3,330)	-	(3,330)
Profit before income tax	**16,434**	**13,727**	**30,161**
Income tax expense	(4,026)	(4,118)	(8,144)
Profit for the year	**12,408**	**9,609**	**22,017**
Gross margin – percentage	**11%**		**12%**
Basic earnings per share – cents	**8.1**		**14.4**

CASH FLOW

The Group generated statutory net cash inflow from operating activities of $59.0 million in FY2016, compared to net cash outflow of $17.3 million in FY2015.

The Group generated normalised net cash inflow from operating activities of $59.6 million in FY2016, compared to normalised net cash inflow of $4.4 million in FY2015, being an improvement of $55.2 million over the prior period.

The Group EBITDA of $65.4 million compared to $42.0 million in FY2015 generated an improvement in operating cash flows compared to prior year.

Other factors impacting cash flow in FY2016 include:

- an increase in trade and other receivables of $25.1 million, driven by an increase in sales activity, including higher value-add nutritionals products
- a decrease in inventory of $2.5 million driven by reduced finished goods on hand of commodity products
- an increase in trade and other payables of $17.0 million to support value-add nutritional products
- payment of tax of $3.3 million in the ordinary course of business
- capital expenditure on property, plant and equipment of $34.0 million.

/ CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

NET DEBT AND DEBT FACILITIES

The Group's net debt as at 30 June 2016 was $53.1 million, which compared to $58.7 million in FY2015, being a reduction of $5.6 million or 9.6%.

Bega Cheese Group continues to enjoy the support of its bankers via a primary Syndicated Facility with Coöperatieve Central Raiffeisen-Boerenleenbank. B.A. (Rabobank Australia Branch), and Westpac Banking Corporation, an inventory facility with Rabobank and other minor overdraft and guarantee facilities provided by Westpac.

The Group has continued to trade well within its facility limits throughout FY2016.

The Group had $163.0 million in available debt facilities as at 30 June 2016.

CAPITAL INVESTMENT IN FY2016

Bega Cheese Group capital expenditure in FY2016 totalled $34.0 million (FY2015: $18.7 million). In addition to ongoing capital works the Group has undertaken the following capital expenditure initiatives in FY2016:

- increasing efficiency, quality controls and production capacity at the Derrimut canning and blending facility, with new can seaming equipment increasing total production capacity and product integrity
- increasing the efficiency and production capacity of natural cheese slices at Ridge Street, Bega
- increasing the efficiency, flexibility and production capacity of shredded cheese at Ridge Street, Bega
- increasing automation of various production and manual handling processes throughout the business
- investing in research and development on extracting and maximising the recoverable value of milk and whey protein to complement nutritionals and bionutrients activities.

In addition to capital expenditure we have also spent $5.7 million developing a new Enterprise Resource Planning and management reporting information system (ERP) that will ultimately streamline business processes and accelerate management analysis and reporting.

SALES REVENUE

In FY2016 the Group generated sales revenues of $1,196.0 million compared to $1,112.6 million in FY2015. This growth is particularly pleasing as it has occurred across most areas of the business other than basic dairy commodities, which declined by $21.1 million due to the continued downward price pressure on skim milk powder, whey powder and other dairy commodity based products.

While the objective will always be to minimise its adverse financial impact, the Group cannot be fully immune from the underlying influence of global dairy commodity prices. Through years of stable planning Bega Cheese Group is far less exposed to these influences than many of its competitors.

The Group continues to develop its strategy to minimise adverse impacts from dairy commodities, with progress in this direction during FY2016 including:

- continued focus on growing consumer and food service dairy products, brands and customers, which are traditionally more stable business segments than dairy commodities
- increasing efforts and investment in nutritionals and bionutrients
- approximately 11.0% of the Group's total sales revenue in FY2016 was generated from consumer and foodservice dairy products
- approximately 50.0% growth in nutritionals business in FY2016, with sales revenue surpassing $200 million for the first time
- strengthened the alliance between Bega Cheese Group and Bellamy's, which includes an increase in the minimum volume of infant formula the Group will supply Bellamy's into the future
- established an alliance with Blackmores through the formation of the Bemore joint operation, with Blackmores and Bega Cheese Group sharing equally in managing the infant formula and life stage nutritionals business, as well as the benefits and risks of the business
- the Derrimut nutritionals canning facility has now settled into a 24/7 shift structure to meet demand, with further investment in nutritionals packing expected in FY2017 as demand in this category is continuing to grow
- the Group's significant presence in cut, pack and processed cheese continued to grow over the prior year
- while Coles Supermarkets has advised that after five years they are electing to move their own brand cheese contract, management was quick to replace this with the Woolworths Supermarkets own label cheese business from January 2017 and continues to work hard to secure new business with other domestic customers as well as a continuing expansion of our international business in this category in order to mitigate the loss of the Coles volume
- the Group has developed a very clear strategy for both international consumer retail and food service channels, with international retail and food service business now generating sales revenue of approximately $100 million
- cream cheese continues to be a core technical competency at the Tatura site and the Group maintains a steady capital program in this business to meet continuing growth in volumes and formats as we expand this business internationally.

The development of Bionutrients as a fourth commercial platform for the Group has been slower than expected. This is due mainly to decreased returns from lactoferrin, which has seen an increase in global capacity and a drop in global demand resulting from a slowdown in usage in Chinese nutritional products. However we have expanded the bionutrients product portfolio to include lactoperoxidaise, milk protein fractions and more recently, non-dairy bionutrients including Starchlite white kidney bean extract used for weight control. We are also continuing our research and development around whey protein extraction at Lagoon Street.

The Group would not be successful without the continuing commitment to and support from every one of our customers throughout the world. In addition to the domestic customer base the Group has a broad customer base across South East Asia, China, Japan and the Middle East and is now expanding into the USA and Europe as we establish our Bionutrients business.

We would like to thank all of our customers for their continued support, particularly ALDI, Bellamy's, Blackmores (through the Bemore Partnership), Coles (although the own brand business will soon be redirected, Coles remains a big supporter of the Bega brand), Fonterra, Mondelez and Woolworths in Australia as well as international customers including Anglis Foodservice throughout China and South East Asia, Ingredia in France, Kraft Heinz in the USA, Lacto Japan, Mead Johnson Nutrition, Megmilk Snow and Morinaga in Japan.

BRAND PORTFOLIO

Bega is the flagship brand in the portfolio and by 30 June 2016 had grown to 15.7% of the Australian retail cheese category, further consolidating its position as Australia's number one cheese brand and an iconic Australian food brand. Fonterra continues to represent the Bega brand in the Australian domestic market under a long term franchise agreement and Bega Cheese Group would like to recognise and thank them for their stewardship of the Bega brand in this highly competitive domestic cheese market.

The Group's brand portfolio now includes Bega, Tatura, Royal Victoria, Melbourne and Dairymont. These brands are now available in Australia and over 40 countries around the world generating combined revenues of approximately $276 million in FY2016 *(including sales of the Bega brand by Fonterra in Australia).*

OPERATIONS

The Group achieved record production output of 238,156 tonnes in FY2016, being an increase of 5.9%. A summary of the volume of production is shown by business platform is in the chart below:

In a period of extreme market volatility it is critical to ensure the Group minimises wastage and losses in its manufacturing operations to minimise operating costs and the environmental impact of the business. It is pleasing to note the continuous improvements in our manufacturing efficiencies throughout FY2016 as operational execution continued to be a core focus for the business.

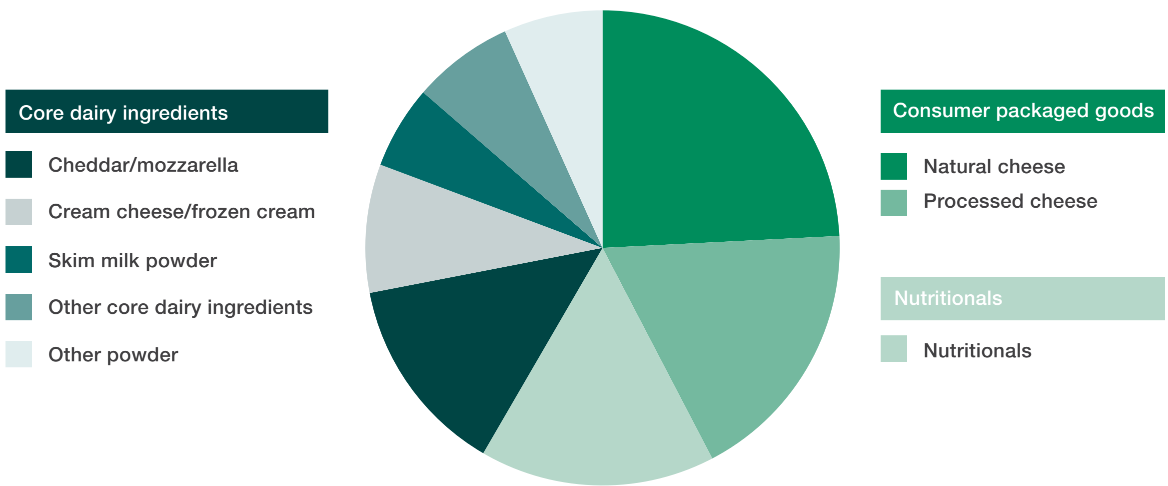
Ongoing productivity improvements and our key focus on doing things "Right First Time" across the six manufacturing sites have resulted in significant improvements to conversion costs across a number of sites compared to FY2015. Notable improvements included higher production line efficiencies at Lagoon Street, Derrimut and Ridge Street operations. In addition to targeted cost savings we again saw improvements in product quality including "Right First Time", product availability and internal and external (independent) audit outcomes.

Energy consumption is a major input cost for the business, particularly the spray driers at Tatura and Lagoon Street in Bega. In FY2016 the business achieved a 7.9% reduction in energy use per tonne of production while overall water consumption across the Group increased by 5.6% per tonne of production with increased Nutritional volumes driving consumption. Identification of opportunities to reduce consumption of energy and other utilities continues to be a key focus for the Operations Team.

ENVIRONMENT

The Group is pleased to have completed its first Sustainability Report covering activities during FY2015, a copy of which is available on the Bega Cheese Group website.

The Group tracks environmental sustainability through a number of key performance indicators that are reviewed monthly. The Group manages manufacturing activities in regional areas to ensure that they are economically, socially and environmentally sustainable. The Board and Management teams are committed to identifying and managing economic, environmental and social sustainability risks, the long-term viability and sustainability of the dairy industry and the regional locations of the Group's manufacturing plants.



/ CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

The Group continues to maintain close relationships with its dairy farmer suppliers in relation to environmental management systems on farm. Suppliers have committed to numerous sustainability projects under the Milk Sustainability and Growth Program that were addressed in FY2016 or will be completed in years to come. The benefits to the environment from projects funded under this program will have a lasting impact on the farm land, farming families and communities in which they operate.

Bega Cheese Group is proud of its track record in environmental awareness and its commitment to direct funding to this important global issue.

SAFETY

It is pleasing to note that our safety performance is on a path of continuous improvement and is within comparative industry levels.

The number of lost time injuries (LTIs) reduced a further 70% in FY2016. The lost time injury frequency rate (LTIFR) reduced by 70% to 3.7 in FY2016 which continues the significant improvement over the previous five year safety journey. Safety is embedded as a Core Value across the Group and is very well supported by all staff.

Bega Cheese Group remains committed to continuous development and improvement of our safety systems, processes and staff engagement and it is our clear goal to have no injuries to anyone.

MILK SUPPLY

Total milk collected from direct suppliers was 656 million litres in FY2016, which is an increase of 3.8% over the prior year.

Bega Cheese Group continues to maintain a well-defined milk supply strategy that is aligned to our strategic plan. Bega Cheese Group continues to invest in a sustainable growing milk pool for the future and continues to support the interests of its milk suppliers over time.

The capability, capacity and propensity to support the dairy farming community is tested most when the industry is at the bottom of the commodity cycle. The sustained cyclical low in dairy commodity markets had a material adverse effect on the dairy community in FY2016. It is times like these that The Group aspires to set itself apart from other purchasers of milk, by responsibly maximising the support it can provide directly to its suppliers and to the wider dairy industry.

Bega Cheese Group's credibility was enhanced in FY2016 by:

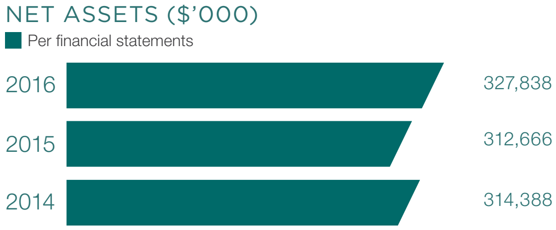
- focussing on running and building a profitable growing business, dealing with the realities of the day as it did so, not getting distracted
- remaining up to date with all factors affecting the Australian and global dairy industries and interpreting how these may play out in relation to its own business, the businesses of its competitors and the dairy farming communities in and beyond the communities in which it operates
- regularly communicating what the leadership group was seeing and how that may affect its key stakeholders and the dairy industry
- responding rationally, regardless of the actions of others, and explaining these responses to the key stakeholders
- leveraging off its strong balance sheet strength to provide meaningful support
- empathising with those in a worse situation and finding ways to help.

Bega Cheese Group is proud of the decisions it took to support its milk suppliers and other stakeholders and the messages it communicated during a period of extreme volatility in the Australian dairy industry during FY2016. Bega Cheese Group would like to thank all those who supported it during this period.

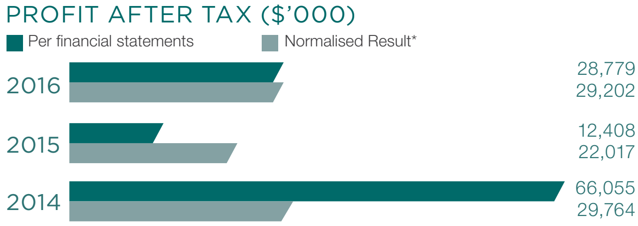
PRODUCTION VOLUME (TONNES)

REVENUE ($'000)

NET ASSETS ($'000)



PROFIT AFTER TAX ($'000)



**Normalised results exclude the impact of significant events occurring during the year.*

Other Key Management Personnel, from left to right: Aidan Coleman, Paul van Heerwaarden, Colin Griffin, Garth Buttimore, David McKinnon

INVESTMENTS

The Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra. The performance of CCFA improved in FY2016 as a result of cost reduction and market developments.

On 29 October 2015 Blackmores and Bega Cheese Group announced the formation of a joint operation (Bemore) focussing on infant and life stage nutritional powders. Bemore is a joint operation owned and managed equally by Bega Cheese Group and Blackmores (the partners) through a Board of Directors and a management committee. Both parties share equally in the financial rewards and risks of the Bemore business.

The primary objective of Bemore is to jointly represent Bega Cheese Group and Blackmores in marketing, selling and distributing finished infant nutritional powders and other life stage dairy based nutritional powders in Australia and Asia. Tatura Milk manufactures and supplies nutritional powders to Bemore on normal commercial terms. Blackmores provides marketing, selling and distribution services to Bemore on normal commercial terms. Blackmores acts as agent for Bemore in the sale of nutritional powders, working with Blackmores' domestic and international customers.

Bega Cheese Group has invested in developing unique infant formula specifications for Bemore. Blackmores led the development of branding, marketing, packaging design and market distribution channels. Bemore nutritional powders are co-branded, with the Blackmores and Tatura Milk trademarks. This co-branding signifies the unity of approach under the Bemore arrangement, recognising the strength of the Blackmores brand in health and wellbeing and Tatura Milk in infant nutritionals manufacture.

Bemore launched nutritional powders on 16 January 2016 and undertook an advertising campaign to drive awareness of the new range of infant nutritional products. The launch focussed on Australian mothers as an initial priority ensuring the much publicised stock shortages at the time did not impact product being available to these consumers. The initial launch focussed on the Australian pharmacy channel with restricted stock available in China. Product was specifically reserved by Bemore to supply any Australian mothers directly in the event of any stock shortages. As further supply became available, Bemore increased distribution and ranging into the Australian Grocery channel and in China more broadly. The Bemore product range launch in China was strengthened by Li Na's association with Blackmores as a global brand ambassador.

In April 2016 Chinese authorities announced changes to regulations for the sale and distribution of infant formula into China. Bemore is well placed to operate in accordance with the revised legislation anticipated to come into effect in FY2017.

PEOPLE & ORGANISATIONAL DEVELOPMENT

It is appropriate that I recognise the commitment of all of our 1,650 employees who drive the success of the Group.

It is my intention to retire as CEO of Bega Cheese Group in early 2017. I would particularly like to thank my executive team for their focussed leadership over the past 5 years. I would also like to thank our Executive Chairman, Barry Irvin, and our Board of Directors for their support and guidance during my time as CEO. It has been a pleasure to work for Bega Cheese Group and I will be leaving with great confidence that the Group will continue to grow and prosper.

STRATEGIC OUTLOOK

The Board and executive have confirmed the 2020 Strategic Plan for the Group as a positive evolution of the strategy we have been working towards since listing on the Australian Securities Exchange in 2011. This Strategy will be refreshed to extend the horizon out to 2025.

Bega Cheese Group has reconfirmed its strategic focus to be on:

- extracting increased value from our milk solids intake and improving returns from milk going into commodities, particularly skim milk powder
- developing existing business platforms into business units to improve our competitiveness as well as to develop new international markets for these business streams
- at a corporate level, identify acquisition opportunities aligned to our core capabilities in dairy technology, manufacturing operations and market development of dairy foods.

It is expected that the outlook for global dairy markets will see continued price depression in the short term until there is a rebalance of supply to demand. However we consider that in the medium to long term we will see an increasing demand for dairy products, particularly from regions with restricted agricultural capabilities. We continue to see this as a significant opportunity for Bega Cheese Group, given much of this growth in demand will come from the Asian region, in which we already have a sound and expanding presence.

Aidan Coleman
Chief Executive Officer
24 August 2016

/ DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THE ANNUAL FINANCIAL REPORT OF THE BEGA CHEESE GROUP FOR THE YEAR ENDED 30 JUNE 2016.

BARRY IRVIN AM

EXECUTIVE CHAIRMAN

Director since September 1989.

EXPERIENCE AND EXPERTISE

Barry Irvin is recognised globally for his extensive knowledge of the Australian dairy industry. In 2011 he was awarded the Rabobank Agribusiness Leader of the Year. He was awarded the NAB Agribusiness Leader of the Year in 2009 and appointed a member of the Order of Australia in 2008.

OTHER CURRENT DIRECTORSHIPS

Director of Gardiner Foundation, Tatura Milk, Capitol Chilled Foods (Australia) Pty Ltd, Giant Steps Melbourne Limited and Giant Steps Sydney Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Board.

RICHARD CROSS

BAgSci (Hon), GAICD

Director since December 2011.

EXPERIENCE AND EXPERTISE

Richard Cross has represented dairy farmers at various levels within the United Dairyfarmers of Victoria, is the current Chair of Murray Dairy Inc., the regional extension arm of Dairy Australia, and was recently a member of the Horizon 2020 working group. Richard Cross was a Director of Tatura Milk from 2003 to 2011.

OTHER CURRENT DIRECTORSHIPS

Director of Murray Dairy Inc.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee.

PETER MARGIN

BSc (Hons), MBA

Independent Director since June 2011.

EXPERIENCE AND EXPERTISE

Peter Margin has many years of leadership experience in major Australian and international food companies. His most recent position was the CEO of the ASX-listed food group Goodman Fielder Ltd from 2005 until April 2011. Prior to that appointment he was the CEO and Chief Operating Officer of National Foods Limited and has had experience at Heinz, Birds Eye Foods, Plumrose and Peter is currently Executive Chairman of Asahi Beverages (ANZ).

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Nufarm Limited, PMP Limited, Pact Limited, Huon Aquaculture Limited and Costa Group Holdings Limited. Mr Margin has advised that he will be retiring as Director of PMP Limited and Huon Aquaculture Limited by the end of August 2016.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Ricegrowers Limited.

SPECIAL RESPONSIBILITIES

Chair of the Nomination, Remuneration and Human Resources Committee and member of the Audit & Risk Committee.

RAELENE MURPHY

BBus, CA, GAICD

Director since June 2015.

EXPERIENCE AND EXPERTISE

Raelene Murphy was formerly a Managing Director of the 333 Group, a leading specialist consulting firm which provides strategic, financial and operational advisory services. She has over 30 years' experience in strategic, financial and operational roles in both industry and in professional services as a Partner and Managing Director. Her industry experience includes FMCG, supply chain, logistics and construction, while in her professional service career she specialised in restructuring and merger and acquisition integration. Raelene was the CEO of the Delta Group and has had various senior executive roles in the Mars Group.

OTHER CURRENT DIRECTORSHIPS

Non-Executive Director of Service Stream Limited, Tassal Group Limited and Ross House Investments Pty Limited (Stillwell Motor Group). Non-executive Director of the DOXA Youth Foundation.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

EVZ Limited.

SPECIAL RESPONSIBILITIES

Chair of the Audit & Risk Committee.

JEFF ODGERS

BBus (Ag Mgt)

Director since December 2011.

EXPERIENCE AND EXPERTISE

Jeff Odgers owns and actively manages an expanding dairy farming business on two properties near Shepparton, Victoria. He has experience in regional and national dairy industry leadership roles. Jeff Odgers is a former Chairman of Murray Dairy Inc.

OTHER CURRENT DIRECTORSHIPS

Director of Dairy Australia Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Milk Services Committee.

Directors, from left to right, top to bottom: Barry Irvin, Richard Cross, Peter Margin, Raelene Murphy, Jeff Odgers, Richard Parbery, Richard Platts, Max Roberts

RICHARD PARBERY

FCPA, MAICD

Director since September 1988.

EXPERIENCE AND EXPERTISE

Richard Parbery is the managing partner of a successful regional accounting practice, is a Fellow of the Australian Society of Certified Practicing Accountants, a registered Company Auditor, registered Tax Agent, a registered Self-Managed Superannuation Fund Auditor, Justice of the Peace NSW, an External Examiner for the Law Society of NSW and a member of the Australian Institute of Company Directors. Richard Parbery is experienced in servicing many agricultural and general business clients.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Audit & Risk Committee.

RICHARD PLATTS

Adv Dip Agr, GAICD

Director since November 2000.

EXPERIENCE AND EXPERTISE

Richard Platts owns and manages a large dairy farming business near Bega, NSW. He completed the Rabobank Executive Development Program in 2011. In the past he has represented dairy farmers at a number of organisations.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee.

MAX ROBERTS

MAICD

Director since September 1983.

EXPERIENCE AND EXPERTISE

Max Roberts has been involved in the dairy industry for many years, including agripolitical, Board representation and direct dairy farming activities.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Chairman of Dairy Australia Limited.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee and member of the Milk Services Committee.

/ DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and associated products. A number of key events in relation to the activities of the Group during the year ended 30 June 2016 are set out in the Executive Chairman's review and the Chief Executive Officer's review of operations and activities, which is to be read in conjunction with this Directors' report.

DIVIDENDS

The dividends paid to shareholders during the financial year were:

	2016 $'000	2015 $'000
Interim ordinary dividend for the year ended 30 June 2016 of 4.5 cents	6,867	-
Final ordinary dividend for the year ended 30 June 2015 of 4.5 cents	6,867	-
Interim ordinary dividend for the year ended 30 June 2015 of 4.0 cents	-	6,104
Final ordinary dividend for the year ended 30 June 2014 of 4.5 cents	-	6,867

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $7,630,000 (5.0 cents per fully paid share) to be paid on 15 September 2016.

REVIEW OF OPERATIONS

A comprehensive review of operations is set out in the Chief Executive Officer's review of operations and activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than that disclosed in the Executive Chairman's review and the Chief Executive Officer's review of operations and activities, there have been no significant changes in the state of affairs of Bega Cheese Group since the last Annual Report.

INDEMNIFICATION AND INSURANCE PREMIUMS FOR OFFICERS

During the financial year, Bega Cheese Group paid a premium in respect of a contract insuring the Directors and all executive officers of the Group and of any related body corporate against a liability incurred as such a Director or executive officer, not exceeding the extent permitted by law. The contracts of insurance prohibit disclosure of the nature of the liabilities and the amount of the premiums. The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Group or any related body corporate against a liability incurred as such an officer. This does not include remuneration or employment related benefits, any sum payable pursuant to a financial support direction or contribution notice issued in respect of any pension scheme, fines and pecuniary penalties for a deliberate or intentional act, nor amounts which are prohibited to be paid by law.

Each Director has entered into a deed of access and indemnity with the Group which indemnifies them for losses incurred as a Director or officer of Bega Cheese and places an obligation on Bega Cheese Group to maintain a current Directors' and Officers' policy with a reputable insurer for the period of the Director's tenure and for a seven year tail period (or longer if there is an unresolved outstanding claim against the Director) and a contractual right of the Director to access Group records for the period of the Director's tenure and for a seven year tail period (or longer if there is an unresolved outstanding claim against the Director).

The Company has also agreed to indemnify the Company Secretaries and certain senior executives for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution, Max Roberts and Richard Platts are due to retire as Directors at the Annual General Meeting and, being eligible, offer themselves for re-election.

COMPANY SECRETARIES

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 31 years' experience. He has also been a graduate member of the Australian Institute of Company Directors since 2006. Brett Kelly completed the Certificate in Governance and Risk Management with the Governance Institute of Australia in December 2011.

Colin Griffin CA was appointed to the position of Company Secretary in 1993. Colin Griffin holds a Bachelor of Arts in Accounting and is a Chartered Accountant with 33 years' experience. Colin Griffin's primary responsibility is as Chief Financial Officer (CFO).

MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit & Risk Committee, Nomination, Remuneration and Human Resources Committee and Milk Services Committee meetings held during the year ended 30 June 2016 and the number of meetings attended by each eligible Director and other members:

	Meetings of the Audit & Risk Committee	
	Held and Eligible	Attended
Raelene Murphy	8	8
Peter Margin	8	8
Richard Parbery	8	7

Richard Parbery gave an apology in advance of the meeting he was unable to attend.

	Meetings of the Nomination, Remuneration and Human Resources Committee	
	Held and Eligible	Attended
Peter Margin	4	4
Richard Cross	4	4
Richard Platts	4	4
Max Roberts	4	4

	Meetings of the Milk Services Committee	
	Held and Eligible	Attended
Jeff Odgers	5	5
Max Roberts	5	5

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	13	13
Richard Cross	13	13
Peter Margin	13	13
Raelene Murphy	13	13
Jeff Odgers	13	12
Richard Parbery	13	13
Richard Platts	13	13
Max Roberts	13	13

Jeff Odgers gave an apology in advance of the meeting he was unable to attend.

ENVIRONMENTAL AWARENESS AND SUSTAINABILITY

OVERVIEW

Bega Cheese Group is committed to growing its business in an environmentally and socially sustainable manner. The Group proactively works with its milk suppliers to ensure they continue to improve on farm practices to minimise adverse impacts on the environment whilst also being conscious of the need for appropriate animal husbandry. The Group also works cooperatively with other stakeholders to ensure appropriate standards are applied to deliver improved efficiency and reduced resource intensity in other areas that directly or indirectly impact our business.

ON FARM ACTIVITIES

The Group directly engages with its milk suppliers across the country to assist them in all facets of their dairy businesses. Of particular interest are the sustainability, efficiency and succession of their dairy businesses, all of which are important to the growth and prosperity of the Bega Cheese Group. The Group employs a dedicated field services team who constantly connect with milk suppliers in all our regions to support improvements in their businesses and the environment in which they operate.

BEGA ENVIRONMENTAL MANAGEMENT SYSTEM

The Group is widely recognised for its Bega Environmental Management System (BEMS), which was first introduced to the Bega Valley in 2004 and has since been rolled out to all milk collection areas. BEMS is actively supported by the field services team and targets minimising the effects of farming activities on the environment whilst also improving the performance and sustainability of dairy businesses.

In FY2016 the BEMS program completed sustainability assessments across 350 milk suppliers, implemented improved management practices across priority sustainability areas and made numerous recommendations for improvement on farms. Data collected through this process will also be used to design and implement specific professional development programs to be rolled out to milk suppliers in FY2017.

A cumulative summary of BEMS achievements to FY2016 are as follows:

Number of BEMS projects approved	155
Number of projects completed	104
Number of effluent systems upgraded	49
Number of wetlands protected	72
Fencing installed	240km
Streams protected	405ha
Riparian areas revegetated	247ha
Shade and shelterbelts created	112ha

TECHNOLOGY REDUCING ENVIRONMENTAL FOOTPRINT

During FY2016, the Group, in conjunction with Agsmart, developed and rolled out an innovative application for use on mobile devices that assists farmers to better manage their dairy businesses, referred to as "Farmsmart". In FY2016 approximately 130 farmers registered and downloaded the application, with very positive feedback to date.

The majority of the features on Farmsmart provide information and management tools that track the progress of the dairy business in real time, and at the farmer's fingertips. Information such as paddock rotation, fertiliser applications and herd management better equip the farmer to minimise impact on the environment by operating more efficiently and with much less waste, thus improving supply chain cost and long term milk sustainability.

MILK SUSTAINABILITY AND GROWTH

Over the last three years the Group has also supported a Milk Sustainability and Growth program across the milk supply base. This program was designed to encourage milk suppliers to improve the farming practices for the future and to stimulate growth in milk production. The Group benefited from significant uptake in the scheme and applied key attributes of the BEMS program to further improve environmental practices on farm, whilst also pursuing sustainable and growing milk supply.

RECOGNITION AND SUPPORT

Bega Cheese Group was pleased to be recognised for the BEMS program and the Milk Sustainability and Growth program in the 2016 UNAA World Environment Day Awards as a finalist under the Organisational Leadership category. Long term sustainability of milk supply is a priority for the Group and recognition through such awards is strong acknowledgement of The Group's ongoing efforts in this area.

The Federal Government Department of Agriculture provided the Group valued support from its Carbon Farming Futures Extension and Outreach program. In FY2016 the Group focussed on reducing carbon emissions by improving on farm efficiency and held 32 events which were attended by a wide variety of milk suppliers.

South East Local Land Service continued its support of Bega Cheese Group in FY2016 with on ground environmental works relating to shade, shelter and revegetation all progressed in the regions in which the Group operates.

The Bega Cheese Group is very grateful for the support received in delivering environmental improvements, both through Government funding and working with milk suppliers, including receiving:

- grant funding of $114,000 for FY2016 as part of the multi-year $850,000 support package from the Federal Government Department of Agriculture
- funding support of $181,847 provided by the NSW South East Local Land Service for on ground environmental works on dairy farms in the Bega region in FY2016.

ENVIRONMENTAL REGULATIONS AND MANAGEMENT

LEGISLATIVE FRAMEWORK

Bega Cheese Group is subject to Federal and State Environmental Regulations. These include reporting requirements under the National Greenhouse and Energy Reporting Act 2007 (Cth), the Protection of the Environment Act 1997 (NSW) and the Clean Energy Act 2011 (Cth).

Bega Cheese Group's manufacturing sites are licenced under State Environment Protection Regulations. The licences stipulate performance standards for all emissions (noise, air, odour, wastewater, etc.) from the sites as well as the frequency and method of assessment of the emissions.

Each of the Group's sites in Bega, Tatura, Strathmerton, Coburg and Derrimut enjoy an open and communicative relationship with the relevant environmental regulators.

The Group has complied with all annual reporting obligations and will continue to monitor and report energy intensity and carbon footprint.

MAJOR ENVIRONMENTAL INITIATIVES

The Bega management team is continuing to work with the regulators and is actively managing actions to reduce emissions to air and waste water volumes. The Group has undertaken a number of important projects in FY2016 to mitigate our impact on the environment and local community, including installing:

- an air emissions 'bag house' on one of its driers at the Tatura site. This major investment met the requirements of the Environmental Protection Agency (VIC) and significantly reduced emissions from the site
- an acoustic wall around the perimeter of the Coburg site. This acoustic wall met the requirements of the Environmental Protection Agency (VIC) and is designed to reduce noise emissions from the site to minimise the impact of our operations on our surrounding community.

COMPLIANCE WITH REGULATIONS

During FY2016 the Group received notice from the relevant authority of a non-compliance for air emissions at our Lagoon Street Bega site and a fine of approximately $12,000. This site uses sawdust and other wood-waste to fuel its main site boiler. This wood-waste is a by-product of the timber industry surrounding the Bega area and is a source of renewable energy. However, periods of sustained wet weather meant that dry sawdust was not available and the burning of wet sawdust resulted in abnormally high smoke emissions. The relevant authority continues to support Bega Cheese Group as we address this issue.

Also during FY2016 the Group received notice from the relevant authority that noise emissions from the Coburg site exceeded the relevant regulatory limits. In response, Bega Cheese has invested in a number of noise suppression initiatives on this site and has substantially reduced the noise emissions levels. Bega Cheese is continuing to work with the relevant authorities on further initiatives to achieve full compliance.

Bega Cheese Group has a commitment to reduce the environmental footprint of its manufacturing operations and monitors and reports on a range of environmental metrics. Notable achievements in FY2016 included:

- reducing energy intensity by 7.9%
- reducing solid waste by 2.0%
- increasing recycled solid waste by 3.0%.

REMUNERATION REPORT

INTRODUCTION

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, Chief Executive Officer (CEO) and other key management personnel (KMP) of the Group, being the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2016.

KEY MANAGEMENT PERSONNEL (KMP)

Details of Directors are set out in the Directors' Report on pages 18 to 19.

The CEO is appointed by the Board on recommendation from the Nomination, Remuneration and Human Resources Committee (NRHRC). Other KMP are appointed by the CEO in conjunction with the Executive Chairman. The CEO and other KMP comprised the following people during the whole of FY2016:

Name	Positions held	Entity
Aidan Coleman	CEO	Group
	Executive Director	Tatura Milk
Garth Buttimore	General Manager Operations	Group
Colin Griffin	Chief Financial Officer	Group
	Executive Director	Tatura Milk
	Director	Bemore
	Non-executive Director	CCFA
Paul van Heerwaarden	General Manager Sales & Marketing	Group
	Executive Director	Tatura Milk
	Director	Bemore
David McKinnon	General Manager Human Resources	Group

Grattan Smith who was a KMP in FY2015 is not considered a KMP for FY2016 as he changed roles on 1 July 2015 to lead the Group's Enterprise Resources Planning and Information Systems project, which removed him from the day to day operations of the business.

REMUNERATION GOVERNANCE

The NRHRC operates under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating Directors, the CEO and other KMP.

The responsibilities of the NRHRC are to make recommendations to the Board in relation to the remuneration principles and practices for Directors, the CEO and other KMP and to provide guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic human resource planning.

The NRHRC has two key roles:

1. to assess and make recommendations to the Board on any changes to the composition of the Board with a view to ensuring that it is able to operate effectively and efficiently and adequately discharge its responsibilities and duties
2. to advise and assist the Board to ensure that the Group:
    a. has coherent human resources policies and practices which enable the Group to attract and retain Directors and Executives who will create value for shareholders and that support the Group's wider objectives and strategies
    b. fairly and responsibly remunerates Directors and Executives, having regard to the performance of the Group, the performance of the Executives and the market remuneration environment
    c. has effective policies and procedures to attract, motivate and retain appropriately skilled people to meet the Group's current and future needs.

Further details of the role of the NRHRC are provided in the Corporate Governance statement.

REMUNERATION GUIDELINES

The Board, through the deliberations and recommendations of the NRHRC, is responsible for the remuneration strategy, principles and procedures for employees of the Group.

In setting the remuneration of KMP the Board takes recommendations from the NRHRC. In formulating its recommendations, the NRHRC takes into account a range of factors including Group financial performance and the remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a material factor in determining the total remuneration for each KMP.

Each KMP has a significant amount of their remuneration directly related to budgeted profit, trade working capital, safety and strategic personal objective targets. Stretch targets provide the opportunity for each KMP to derive additional remuneration at risk (RAR) payments, where the achievement of performance criteria has a direct bearing on the earnings of the Group and its potential to reward shareholders.

In reviewing KMP remuneration in FY2016, the General Manager Human Resources sourced current remuneration market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector. The external information received in support of the FY2015 KMP remuneration review was also referenced for the FY2016 KMP remuneration review. This was then updated with details of general market remuneration from Aon Hewitt through their Major Companies Executive database, obtained for a fee of $9,350. The Board confirmed that the remuneration recommendations were made free of undue influence by any of the KMP to whom the recommendations relate.

This information was taken into account by the NRHRC in August 2015 to determine base salary adjustments for the Executive Chairman for his executive duties, the CEO and other KMP. The approved base salary adjustments were implemented with effect from 1 September 2015.

DIRECTORS' REMUNERATION

Directors' remuneration is set by the Board within the maximum aggregate amount of $900,000 per annum approved by shareholders.

In order to maintain independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Group performance. In setting Directors fees, the Board takes into consideration the Group's existing remuneration policies, fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate calibre.

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles. Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Group. Pursuant to the market remuneration received, Director's fees were increased by $2,000 per annum, inclusive of superannuation, and the Executive Chairman's fee was increased by $5,000 per annum, including superannuation, from 1 November 2015.

During the year there were no changes to the composition of the Board, nor the Chairs and membership of the three Board Committees, being the Audit & Risk Committee, the NRHRC and the Milk Services Committee. Committee fees were not adjusted in FY2016.

The following table summarises the previous and current level of all Directors' fees and allowances:

	Annual amount including super	
	Rate from 1/7/15 to 31/10/15	**Rate as from 1/11/2015**
Fees and allowances by role	$	$
Chairman of the Board	175,000	180,000
Director fees	81,000	83,000
Chair of Audit & Risk Committee	15,000	15,000
Audit & Risk Committee member allowance	7,500	7,500
Chair of NRHRC	12,000	12,000
NRHRC member allowance	6,000	6,000
Chair of Milk Services Committee	7,000	7,000
Milk Services Committee member allowance	3,500	3,500

REMUNERATION OF THE EXECUTIVE CHAIRMAN OF BEGA CHEESE GROUP

The Board determines the remuneration of the Executive Chairman and excludes the Executive Chairman from its deliberations in relation to the level of remuneration which should be applied.

Consistent with previous years, the Board agreed that the remuneration of the Executive Chairman be split as to his responsibilities as Chairman of the Board and as to his responsibilities as the most senior executive of the Group.

In FY2016, the Board reviewed the remuneration of the Executive Chairman for his executive duties, in conjunction with a recommendation from the NRHRC. In making its recommendation, the NRHRC took account of the benchmarking and related information referred to under the Remuneration Guidelines above.

EXECUTIVE DUTIES AT BEGA CHEESE GROUP

The remuneration of the Executive Chairman for executive duties in FY2016 was set in accordance with the following principles:

- a base salary of $387,203, inclusive of superannuation, which was adjusted from 1 September 2015
- the base salary is not subject to specific performance or deliverables criteria, but is adjusted down for any fees the Executive Chairman may earn from his role as director of related organisations
- remuneration earned by the Executive Chairman during the year ended 30 June 2016 from his responsibilities as a Director of the Geoffrey Gardiner Dairy Foundation Ltd was specifically deducted from his base salary in accordance with the above principle. No other remuneration from related organisations was earned during the year
- a structured short-term RAR incentive up to $113,440, that was subject to achievement of agreed outcomes, as approved by the NRHRC in August 2015.

In looking forward the NRHRC will review the structure of the incentive package for the Executive Chairman to ensure that it adequately reflects the associated role and responsibilities and contribution that is made to the organisation.

In relation to the executive duties carried out by the Executive Chairman, the key terms of his employment contract with the Group were unchanged as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity or breach of the service agreement by the Executive Chairman without remedy.
Termination by Executive	Six months' notice or lesser period as agreed by the Group.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

NON-EXECUTIVE DUTIES AT BEGA CHEESE GROUP

The basis of remuneration of the Executive Chairman, in his capacity as a Director on the Board with non-executive responsibilities, is consistent with the details of Directors' Remuneration set out above.

REMUNERATION OF THE CEO

The Board, having regard to recommendations received through the NRHRC, determines the remuneration of the CEO. The CEO's base remuneration was adjusted from 1 September 2015 through the same benchmarking and recommendation process referred to under Remuneration Guidelines above.

The following principles apply to the remuneration of the CEO:

- a base salary of $803,209, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a structured short-term RAR incentive for FY2016 of up to $700,000 subject to the achievement of agreed outcomes
- no long term incentive plan applies for FY2016.

Other key terms of the CEO's service agreement are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity or breach of the service agreement by the CEO without remedy.
Termination by Executive	Six months' notice or lesser period as agreed by the Group.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

REMUNERATION OF OTHER KMP

The total remuneration and remuneration structure of other KMP of the Group is reviewed on an annual basis and any changes are recommended by the NRHRC to the Board. Board approval is required to set the remuneration of other KMPs and the Board may ask for any additional information it deems necessary in order to form a view as to the reasonableness of the recommendations it receives.

The base remuneration for each other KMP, which is determined as part of the annual remuneration and performance review process, comprises:

- a base salary, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a structured short term RAR component subject to the achievement of agreed outcomes
- superannuation contributions in accordance with the Superannuation Guarantee Act.

The remuneration of each other KMP is set having regard to the total employment cost of that employee to the Group. The base remuneration of other KMP was adjusted from 1 September 2015 through the same benchmarking and recommendation process referred to under Remuneration Guidelines above.

Paul van Heerwaarden, Garth Buttimore and David McKinnon each have a service agreement, the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice, or three months' notice where the termination is "for cause". Forthwith in the event of incapacity or breach of the service agreement by the executive without remedy.
Termination by Executive	Three months' notice or lesser period as agreed by the Group.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

Colin Griffin has a specific service agreement, the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	One year's notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity, breach of the service agreement by the executive without remedy, or the executive being guilty of wilful neglect or grave misconduct.
Termination by Executive	One year's notice or lesser period as agreed by the Group. Forthwith in the event of the Group going into liquidation or making any composition or arrangement with its creditors or breach of the agreement by the Group without remedy.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

INCLUSION OF AT-RISK COMPONENT IN TOTAL REMUNERATION PACKAGE

KMP, other than Non-executive Directors, each have part of their total RAR. The payment of the RAR component is subject to the actual performance of the individual and the Group against determined financial and non-financial criteria.

The criteria to be applied are reviewed by the Board on an annual basis to ensure that they closely align with the specific corporate, leadership and financial objectives of the Group. The strategic plan, business and operating plans and annual budgets are the key reference points used in determining the criteria. Each year the NRHRC makes a recommendation to the Board for approval in respect of the determined criteria for all KMP.

/ DIRECTORS' REPORT

For FY2016 each Executive KMP had documented a performance agreement that set individual performance objectives, described success factors for each objective and identified development opportunities that would help them in their current and future roles.

The performance objectives were clearly linked to the key strategic areas set for the business and aligned with the Group's values including sales and volume growth, cost reduction and margin improvement, safety always, right first time, supporting each other and taking ownership.

Each Executive KMP's performance was assessed at the end of the financial year against their agreed objectives, which were each rated as "over achieved", "achieved" or "under achieved". Overall performance was assessed considering what was achieved in total across all objectives, how this was achieved and by an assessment of personal adherence to the Group's values.

Executive KMP whose performance is seen as "under achieved" will not receive a base remuneration review, nor are they entitled to any outcome under the RAR program.

Whilst actual performance of the individual Executive KMP is an important criterion in adjusting their base remuneration, the remuneration recommendations of the NRHRC also take into account the financial performance of the Group, including reference to the attainment of budgeted profit.

At the end of the financial year, the CEO assesses reports from Human Resources and Finance as to the actual performance of each KMP against the determined criteria. The CEO also considers the audited annual report and other factors in formulating a recommendation as to the outcomes for the RAR component of the remuneration for each KMP other than himself. A report and recommendation is then submitted to the NRHRC prior to being submitted to the Board for final review and approval. Board approval is required before the RAR component of the remuneration for each of the KMP is paid.

At the end of the financial year the Executive Chairman assesses the actual performance of the CEO against determined criteria and has access to all relevant information in conducting this assessment. The Executive Chairman also liaises with the Chair of the NRHRC and other directors before making a recommendation for the outcome of the CEO's RAR component of his remuneration to the NRHRC prior to it being submitted to the Board for final review and approval.

LONG TERM INCENTIVE PLANS – CHIEF EXECUTIVE OFFICER

FY2016

The CEO was not subject to any Long Term Incentive plan that related to FY2016. As a result, the CEO's FY2016 remuneration as set out in this report comprises only his base salary, short-term RAR incentive and other statutory entitlements for FY2016.

FY2015

In the prior year the CEO participated in the 2012-2015 Long Term Incentive Plan, which included performance hurdles based on earnings per share and return on funds employed. The details of the 2012-2015 Plan are set out in the 2015 Annual Report, a copy of which is available on the Bega Cheese Group website.

REMUNERATION AT-RISK (RAR) OUTCOME

RAR GATEWAYS

The Executive Chairman and Executive KMP are only entitled to outcomes of the RAR Plan if specific gateways are achieved. These gateways ensure that:

- RAR payments are aligned to the Group's key strategic and business objectives
- no at-risk payments would be made unless the Group achieves or exceeds targeted profit (having accrued for the payout of the at-risk program in that year and been considered in light of final milk prices paid by competitors in the year)
- no RAR payments are made if during the year there is a major safety, quality or environmental event that is within the reasonable control of the Group.

Individual gateways also applied to the Executive Chairman and each Executive KMP relating to individual performance with additional gateways for the KMP relating to participation in safety, quality and environmental programs. These gateways ensure that:

- no RAR payment would be made unless the individual KMP executed their duties in a proper and effective manner
- no RAR payment would be made unless the individual actively participated in key programs around safety, quality and environment, all of which are seen as essential components of the role of KMP.

EXECUTIVE CHAIRMAN

At the commencement of FY2016 the Board determined the RAR key performance indicators (KPIs) for the Executive Chairman with 40% of these KPIs relating to the financial performance of the Group and 60% directly aligned with the executive duties attached to the role of Executive Chairman in executing the Group's strategic plan, in particular strategic business development and KMP succession planning.

The Executive Chairman achieved 82% of personal KPIs which comprised 60% of the RAR Plan and 100% of Group financial performance KPIs. As a result the Executive Chairman is entitled to 89% of the payment under the approved 2016 RAR Plan.

CHIEF EXECUTIVE OFFICER AND OTHER KEY MANAGEMENT PERSONNEL

The RAR component for the CEO and each of the other KMP for FY2016 was determined in accordance with the 2016 RAR Plan approved by the Board.

If Group and individual gateways were both met, the CEO could achieve a RAR payment based on the achievement of the normalised Group EBITDA budget and stretch targets (60%), safety targets (10%), the trade working capital budget target (10%) and strategic personal objective targets (20%).

If Group and individual gateways were both met, then each KMP other than the CEO and Executive Chairman could achieve a RAR payment based on the achievement of the normalised Group EBITDA budget and stretch targets (50%), safety targets (20%), the trade working capital budget target (10%) and strategic personal objective targets (20%).

For the CEO, the maximum RAR totalled 87% of total fixed remuneration, for Colin Griffin and Paul van Heerwaarden the maximum RAR totalled 35% of their total fixed remuneration, and for Garth Buttimore and David McKinnon the maximum RAR totalled 30% of their total fixed remuneration with the following outcomes being achieved:

CEO	Group gateways	Individual gateways	105% Budget EBITDA 60%	OH&S criteria 10%	Working capital budget 10%	Personal objectives 20%	Total achieved %	Total forfeited %	Total fixed rem'n 2016 $	Outcome $
Aidan Coleman	√	√	60%	10%	0%	15%	85%	15%	803,209	595,000

KMP	Group gateways	Individual gateways	105% Budget EBITDA 50%	OH&S criteria 20%	Working capital budget 10%	Personal objectives 20%	Total achieved %	Total forfeited %	Total fixed rem'n 2016 $	Outcome $
Garth Buttimore	√	√	50%	20%	0%	18%	88%	12%	366,872	96,854
Colin Griffin	√	√	50%	20%	0%	18%	88%	12%	421,283	129,755
Paul van Heerwaarden	√	√	50%	20%	0%	17%	87%	13%	471,363	143,530
David McKinnon	√	√	50%	20%	0%	19%	89%	11%	370,983	99,052

RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

Bega Cheese became a disclosing entity in FY2011 and as a result, the relationship between remuneration policy and Group performance has been assessed with effect from that year. The key indicators of Group performance and shareholder wealth relevant to the remuneration of KMPs that have been extracted from the financial statements are as follows:

Key performance indicator		FY2016 Actual	FY2016 Normalised	FY2015 Actual	FY2015 Normalised	FY2014 Actual	FY2014 Normalised	FY2013	FY2012	FY2016 vs FY2015 Normalised Amount	%
Profit before tax	$'000	39,900	40,504	16,434	30,161	93,580	42,124	35,349	27,079	10,343	34
Profit after tax	$'000	28,779	29,202	12,408	22,017	66,055	29,764	25,445	20,429	7,185	33
Dividends per share	Cents	9.50	9.50	8.50	8.50	8.50	8.50	7.50	6.50	1.00	12
Earnings per share	Cents	18.9	19.1	8.1	14.4	43.4	19.6	16.8	12.8	4.7	33
Total shareholder return	%	32.91	32.91	(9.34)	(9.34)	92.05	92.05	65.94	(16.75)	42.25	452
KMP total remuneration	$'000	4,962	4,962	3,623	3,623	4,879	4,879	4,427	4,094	1,339	37

In FY2015 the RAR Group gateways were not achieved and as a result no RAR payments were made in that year.

Total KMP remuneration for FY2016 has increased by 37% from FY2015 which is consistent with the higher level of profit after tax achieved by the Group in the year and the fact the FY2015 Group gates did not open and as a result the prior year did not include payment of RAR to any KMP. Normalised profit after tax increased by 33% over the prior year, the increase in Group performance was mainly due to growth in value added products.

The Australian and international dairy industry faced continued low commodity prices and significant competition in FY2016, farm gate milk price turmoil and late volatility in infant nutritional demand. Milk prices paid by each of the Group's major milk purchasing competitors were retrospectively dropped significantly late in the year, providing their farmers no chance to respond to the radically changed milk prices applied for FY2016. In the context of these unpredicted events, the Group was very pleased to deliver revenue and profit growth, continuing expansion into nutritional and other value added businesses, a strong balance sheet and milk price stability for its dairy farmers in FY2016.

/ DIRECTORS' REPORT

The outcomes on the previous page resulted in the RAR gateways opening and achievement of Group and individual outcomes as outlined in the previous tables.

DETAILS OF REMUNERATION

		Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payment	Total
	Year	Cash Salary and fees	Short-term Incentive	Superannuation	Leave (1)	Equity settled performance rights (2)	All amounts
		$	$	$	$	$	$
Executive Chairman							
Barry Irvin (3)	2016	528,744	100,962	34,889	13,051	-	677,646
	2015	510,549	-	34,945	19,574	-	565,068
Executives							
Aidan Coleman	2016	764,310	595,000	35,000	43,065	-	1,437,375
	2015	739,416	-	35,000	64,697	(372,630)	466,483
Garth Buttimore	2016	333,416	96,854	31,675	9,098	-	471,043
	2015	322,948	-	34,568	25,022	-	382,538
Colin Griffin	2016	383,170	129,755	36,401	47,395	-	596,721
	2015	368,872	-	34,411	31,961	-	435,244
Paul van Heerwaarden	2016	439,435	143,530	30,000	24,701	-	637,666
	2015	427,432	-	30,000	(5,485)	-	451,947
David McKinnon	2016	341,010	99,052	32,029	22,535	-	494,626
	2015	329,179	-	34,958	13,033	-	377,170
Grattan Smith (4)	2016	-	-	-	-	-	-
	2015	281,497	-	32,208	1,486	-	315,191
Total Executive Remuneration	2016	2,790,085	1,165,153	199,994	159,845	-	4,315,077
	2015	2,979,893	-	236,090	150,288	(372,630)	2,993,641
Non-executive Directors							
Richard Cross	2016	80,669	-	7,664	-	-	88,333
	2015	78,234	-	7,432	-	-	85,666
Joy Linton (5)	2016	-	-	-	-	-	-
	2015	80,214	-	7,620	-	-	87,834
Peter Margin	2016	101,833	-	-	-	-	101,833
	2015	99,167	-	-	-	-	99,167
Raelene Murphy (6)	2016	88,889	-	8,445	-	-	97,334
	2015	7,306	-	694	-	-	8,000
Jeff Odgers	2016	81,583	-	7,750	-	-	89,333
	2015	79,147	-	7,518	-	-	86,665
Richard Parbery	2016	82,039	-	7,794	-	-	89,833
	2015	79,604	-	7,562	-	-	87,166
Richard Platts	2016	80,669	-	7,664	-	-	88,333
	2015	78,234	-	7,432	-	-	85,666
Max Roberts	2016	83,866	-	7,967	-	-	91,833
	2015	81,430	-	7,735	-	-	89,165
Total Non-executive Remuneration	2016	599,548	-	47,284	-	-	646,832
	2015	583,336	-	45,993	-	-	629,329
Total KMP	2016	3,389,633	1,165,153	247,278	159,845	-	4,961,909
	2015	3,563,229	-	282,083	150,288	(372,630)	3,622,970

NOTES TO TABLE:

(1) The expense relates to the combined long service and annual leave accrual during the year.

(2) Amounts under share-based payments represent the accounting outcome for Long Term Incentive Plan calculated in accordance with accounting standards. The amount of ($372,630) in FY2015 reflects a write-back of expense incurred in the prior periods relating to unvested rights that were forfeited in respect of the 2012-2015 Long Term Incentive Plan. Further details of the CEO's Long Term Incentive Plan are set out in the 2015 Annual Report.

(3) Includes remuneration for Non-executive Chairman responsibilities.

(4) Grattan Smith ceased being a KMP effective 1 July 2015.

(5) Joy Linton resigned as a Director effective 31 May 2015.

(6) Raelene Murphy commenced as a Director effective 1 June 2015.

OTHER MATTERS

RELATED PARTY TRANSACTIONS

SHARE HOLDINGS

The number of shares held by KMP during the year including their close family members and entities related to them are as follows:

2016 - Numbers of ordinary shares	Balance as at 1 July 2015	Other changes during the year	Balance as at 30 June 2016
Executive Chairman			
Barry Irvin	3,004,984	(300,000)	2,704,984
Executives			
Aidan Coleman	275,000	(55,000)	220,000
Colin Griffin	221,760	(76,760)	145,000
Paul van Heerwaarden	45,000	-	45,000
David McKinnon	5,000	-	5,000
Non-executive Directors			
Richard Cross	288,154	-	288,154
Peter Margin	6,500	-	6,500
Raelene Murphy	-	1,637	1,637
Jeff Odgers	163,174	-	163,174
Richard Parbery	2,664,012	-	2,664,012
Richard Platts	3,480,014	-	3,480,014
Max Roberts	1,555,000	-	1,555,000

TRANSACTIONS RELATING TO MILK

During the year, some Directors and their related entities had transactions with Bega Cheese Group relating to the supply of milk (Supplier Directors). In addition, the Group made available to all suppliers in the prior year the opportunity to participate in the Milk Sustainability and Growth Program, which all Supplier Directors have contracted to do. These transactions were on the same normal commercial terms as other suppliers and are summarised in the table below:

	CONSOLIDATED	
	2016 $	**2015 $**
Milk payments made by Bega Cheese Group	9,706,836	9,823,312
Amounts outstanding at year end	594,670	646,181

/ DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Other than as disclosed in the Executive Chairman's review and the Chief Executive Officer's review of operations and activities, information on likely developments has not been included because disclosure would likely result in unreasonable prejudice to the Group.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 24 August 2016, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $7,630,000. No other matters or circumstances occurring subsequent to the end of the financial year have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future years.

On 29 July 2016 Bega Cheese Group announced that it had reached agreement with Woolworths Supermarkets for the supply of a significant component of Woolworths own label cheese commencing from January 2017. This additional new business will complement the Group's position as a leading supplier of packaged cheese to the Australian retail markets. Bega Cheese Group welcomes the opportunity to more closely align with Woolworths and has been progressing plans to introduce this new business.

AUDITOR

Details of the amounts paid or payable to PricewaterhouseCoopers (PwC) Australia for audit and non-audit services provided during the financial year are set out in note 30.

The Board of Directors have considered the position and in accordance with advice from the Audit & Risk Committee are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 31.

This report is made in accordance with a resolution of the Directors.

Barry Irvin
Executive Chairman
Melbourne

Raelene Murphy
Independent Director
Melbourne

24 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Bega Cheese Limited and the entities it controlled during the period.

SJ Bourke
Partner
PricewaterhouseCoopers

Sydney
24 August 2016

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/ CORPORATE GOVERNANCE STATEMENT

Bega Cheese Group is committed to achieving and maintaining the highest standards of accountability and transparency in the management and conduct of its business. The Board has adopted corporate governance policies and practices that it believes are consistent with the continued growth and success of the Group and the ongoing enhancement of value for Bega Cheese Group shareholders.

This Corporate Governance Statement outlines the extent to which the Group's corporate governance policies and practices are consistent with the 'Corporate Governance Principles and Recommendations' published by the ASX Corporate Governance Council (Recommendations). The Board does not consider that all of the Recommendations are appropriate for the Group at this point in time given its background as a co-operative business and the related provisions in its Constitution which require a minimum number of Supplier Directors and set a maximum shareholding limit. However, where the Group has not followed a Recommendation, this has been identified together with the reasons why it has not been followed.

The Board has formalised the new or revised Corporate Governance Principles and Recommendations contained within the 3rd edition of the ASX Corporate Governance Principles and Recommendations from 21 July 2014.

Copies of all the Group's key policies and practices and the charters for the Board and its current Board Committees referred to in this statement are available in the corporate governance section of the Group's website at www.begacheese.com.au.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

BOARD AND MANAGEMENT FUNCTIONS (RECOMMENDATION 1.1, 1.3 AND 1.4)

The roles and responsibilities of the Board and Board Committees are defined in the Board Charter and the written charters of the Audit & Risk Committee (ARC), the Nomination, Remuneration and Human Resources Committee (NRHRC) and the Milk Services Committee.

The Board Charter also sets out the delegated responsibility of the CEO for the day-to-day management and operation of the Bega Cheese Group business. The Chairman of the Board is responsible for leading and overseeing the operation of the Board and assisting individual Directors to fulfil their respective duties. The Board has also allocated to the Chairman an executive role in relation to the strategic direction of the Bega Cheese Group. The Chairman will work in collaboration with the CEO, selected senior executives and the Board to build mutually beneficial commercial relationships with existing and potential business partners and maintain and enhance the reputation of the Group through active engagement with all key stakeholders.

Bega Cheese Group has written agreements with all Directors (as well as senior executives) setting out the key terms of their appointment. The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

BACKGROUND CHECKS ON DIRECTORS AND INFORMATION TO BE GIVEN FOR ELECTION OF DIRECTORS (RECOMMENDATION 1.2)

The Board will undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a director. If shareholders are making a decision on whether or not to elect or re-elect a director the Board will provide shareholders with all relevant information in its possession.

DIVERSITY POLICY (RECOMMENDATION 1.5)

The Group has a diversity and inclusiveness strategy aimed at building a competitive advantage for the Group. The strategy requires a long-term commitment for leaders to embed a culture of enhanced thinking on how talent is recognised, harnessed, developed and rewarded. Diversity in the Group is about creating a respectful, inclusive work environment, which positions the Group to attain its business aspirations. The Group recognises that the wide array of perspectives resulting from a workplace that is diverse in gender, age, ethnicity and cultural background promotes innovation and benefits Bega Cheese Group shareholders, customers, suppliers and employees.

The focus of the strategy is in the areas of gender, organisational culture, leadership capability and cultural diversity.

At 30 June 2016, the proportion of women employed by the Group was as follows:

• Board of Directors	13%
• Managers (including senior executives)	26%
• Bega Cheese Group	28%

Bega Cheese Group's diversity strategies and measurable objectives are to:

a. increase the representation of women in management positions to 33% within a 3 – 5 year period
b. establish personal development plans for all employees reporting to the Executive Team
c. have succession plans in place for all Executive Team positions with a pool of talented successors sufficient to cover the number of Executive positions
d. establish a mentoring program for senior female leaders
e. achieve a level of employee engagement across the Bega Cheese Group in the high performance zone (greater than 65%) within a 3 – 5 year period.

Bega Cheese Group is making satisfactory progress towards achieving the diversity strategy objectives. The representation of women in management positions has increased from 23% to 26% in the last two years. Documented development plans for all employees reporting to the Executive Team have been completed and reviewed by Executive Team in FY2016. The NRHRC reviews succession processes and the leadership succession plan six monthly to ensure that there is appropriate strategy governance and progress to continue to move to a more diverse workforce.

Bega Cheese Group has identified the following diversity initiatives for FY2017:

- further development and implementation of Equal Employment Opportunity awareness training and engagement within the Company values and behaviours culture program, and in anti-harassment training
- further development and promotion of the organisational values and the leadership behaviours required from leaders
- continue Front Line Management Training to train leader in additional leadership competencies such as driving inclusive behaviours, improving workplace relationships and managing diversity
- review existing recruitment processes to ensure that no process inherent bias exists. Targets to be set for external recruiters to have a diverse short list of candidates. Ensure all hiring managers have an awareness of the Diversity Policy
- establish a mentoring program for senior female leaders
- conduct a review of the relativities in remuneration levels from a gender perspective and develop a plan to address any anomalies.

BOARD PERFORMANCE EVALUATION (RECOMMENDATION 1.6)

The performance of the Board and Directors is reviewed internally on an annual basis, and three-yearly by an independent expert. In FY2016 the NRHRC conducted a Board and Director review process of both self and peer evaluation.

MANAGEMENT PERFORMANCE EVALUATION (RECOMMENDATION 1.7)

The performance of the senior executives is reviewed regularly against performance indicators determined by the Board. An evaluation of the performance of senior executives has taken place during the reporting period in accordance with the processes set out in the Remuneration Report.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

NOMINATION, REMUNERATION AND HUMAN RESOURCES COMMITTEE (RECOMMENDATION 2.1)

The membership of the NRHRC is comprised of one independent Director (Peter Margin) as chair of the Committee and three non-independent Directors (Max Roberts, Richard Platts and Richard Cross). The composition of the NRHRC does not comply with Recommendation 2.1 as the Committee does not consist of a majority of Independent Directors. However, the Board believes that, in the context of the current make-up and size of the Board, the perspective and expertise that the current members bring to the NRHRC is appropriate. The NRHRC may invite any person from time to time to attend meetings of the Committee. More detail on the NRHRC is provided in the Remuneration Report.

The qualifications of the Committee members and their attendance at the meetings of the NRHRC are included in the Directors' Report.

DETAILS OF DIRECTORS (RECOMMENDATIONS 2.2, 2.3 AND 2.6)

Membership of the Board is currently comprised of six long-standing Supplier Directors, including the Executive Chairman (Barry Irvin), and two Independent Directors (Raelene Murphy and Peter Margin).

Within the context of the Board composition requirements of the Bega Cheese Constitution, the Group aims to achieve a mix of industry, finance and business skills among the Directors that will enable the Board to effectively oversee and guide the Group's governance and strategic direction.

Details of each Director's period of office, skills, experience and expertise are set out in the Directors' Report.

Supplier Directors supply milk to the Group on the same terms as other milk suppliers in the same region and the Group's procedures and systems ensure that milk prices are set according to the commercial interests and needs of the Group. The Board recognises that there may be a perception that the milk supply relationship between the Group and the Supplier Directors may influence the decision making of these Directors. Accordingly, while they are able to bring an independent judgment to bear on Board decisions, the Supplier Directors have not been characterised as independent due to this potential perception concern.

This means that contrary to Recommendations 2.4 and 2.5, the Board does not include a majority of Independent Directors and does not have an Independent Chair. Notwithstanding the above, the Board considers that it is well placed to fulfil its duties and, in particular, to effectively review and constructively challenge the performance of management. Further, the Board believes that Barry Irvin is the right person to continue to perform the role of Executive Chairman by virtue of his extensive knowledge of and experience in the Bega Cheese Group business and his specialist skills within the dairy industry.

The Group has a program in place for inducting new Directors and providing appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to effectively perform their role as Directors. Each Director may, in appropriate circumstances and with the approval of the Executive Chairman, seek independent professional advice at the Group's expense.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

CODE OF CONDUCT (RECOMMENDATIONS 3.1)

Bega Cheese Group has a code of conduct (Code) that contains a cohesive set of principles that all officers and employees of the Group are required to abide by in business and dealings with stakeholders. The key aspects of the Code are to:

a. act with honesty, integrity and fairness and in the best interests of the Group
b. act in accordance with all applicable laws, regulations, policies and procedures
c. use Group resources and property properly.

A copy of the Code of Conduct is available in the corporate governance section of the Group's website at www.begacheese.com.au.

SECURITY TRADING POLICY

Bega Cheese has adopted a security trading policy which is designed to ensure compliance with ASX listing rules. The policy also ensures Directors and other relevant employees and their associates are aware of the legal restrictions in dealing in Bega Cheese securities while such a person is in possession of unpublished price sensitive information.

A copy of the Security Trading Policy is available in the corporate governance section of the Group's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

AUDIT & RISK COMMITTEE (ARC) (RECOMMENDATIONS 4.1 AND 4.3)

The ARC is comprised of one Independent Director (Raelene Murphy) as Chair of the Committee, one Independent Director (Peter Margin) and one Non-Independent Director (Richard Parbery).

The responsibilities of the ARC include:

a. overseeing the process of financial reporting, internal control, financial and non-financial risk management and compliance and external audit
b. monitoring Bega Cheese's compliance with laws and regulations and its own policies
c. ensuring that the relationship between Bega Cheese and its external auditor remains independent
d. evaluating the adequacy of processes and controls established to identify and manage areas of potential risk.

The ARC regularly updates the Board on the activities of the Committee and brings any significant issues identified to the Board's attention on a timely basis. Meetings of the ARC are generally held bi-monthly before meetings of the Board. A rolling timetable has been agreed to plan meetings with external auditors at least twice a year and to review the interim and annual accounts. Special meetings are scheduled by the Chair of the ARC as necessary. Each member of the Board is entitled to attend all meetings of the Committee. The ARC may invite other persons to attend as required.

The qualifications of the ARC members and their attendance at the meetings of the ARC are included in the Directors' Report.

In accordance with the *Corporations Act 2001*, the lead partner and the review partner of the external auditor will be rotated at least every five years, and is next due after FY2018. The external auditor is invited to attend Bega Cheese's Annual General Meeting to be available to answer questions from shareholders relevant to the audit.

FINANCIAL RECORDS (RECOMMENDATION 4.2)

Prior to approving the Group's financial statements for FY2016, the Board has received from the CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

CONTINUOUS DISCLOSURE POLICY (RECOMMENDATION 5.1)

Bega Cheese Group is committed to observing its disclosure obligations under the Listing Rules and the *Corporations Act 2001*. Bega Cheese Group has adopted a continuous disclosure policy that establishes procedures aimed at ensuring that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

PRINCIPLE 6 - RESPECT THE RIGHTS OF SECURITY HOLDERS

COMMUNICATIONS POLICY (RECOMMENDATIONS 6.1 AND 6.2)

Bega Cheese Group is committed to keeping shareholders informed of all major developments affecting the Group relevant to shareholders and in accordance with all applicable laws. Information will be communicated to shareholders through the lodgement of all relevant financial and other information with the ASX and publishing information on www.begacheese.com.au.

Bega Cheese Group's website includes media releases, key policies and Board Committee charters. All relevant announcements made to the market and any other relevant information is posted on the Group's website as soon as practicable after it has been released to the ASX.

Bega Cheese Group has implemented a shareholder communications policy to facilitate two-way communication with shareholders and investors, and to encourage effective participation at shareholder meetings.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

RISK MANAGEMENT POLICY AND RISK MANAGEMENT COMMITTEE (RECOMMENDATIONS 7.1, 7.2 AND 7.3)

The identification and proper management of the risks associated with the Group's business are important priorities of the Board. Bega Cheese Group has adopted a risk management policy appropriate for its business. This policy highlights the risks relevant to the operations of the Group.

The senior management team is responsible for designing and implementing systems to minimise and control risks associated with the Group's operations, and it reports regularly to the ARC and the Board on those risks. The ARC is also responsible for overseeing and assessing the process of financial and non-financial risk management and compliance. The Board reviews the Group's risk management framework at least annually to satisfy itself that this framework continues to be sound. A review has been carried out by the Board during the reporting period covered by this Annual Report.

The CEO and CFO have reported to the Board on the effectiveness of the Bega Cheese Group's management of its material business risks. Bega Cheese Group has an enterprise wide risk management framework which manages risks through understanding and responding to the uncertainties the Group faces including supporting the needs of our customers, enabling excellent supplier relationships, maintaining a safe and energised workforce with shared values and an agreed code of conduct.

The internal audit function provides independent and objective assurance on the adequacy and effectiveness of Bega Cheese Group's systems for risk management, internal control and governance, along with recommendations to improve the effectiveness and efficiency of these systems and processes. Up to 30 June 2016 the Governance & Assurance Manager, reported to the CFO, CEO and Chair of the ARC, overseeing internal audit activities and ensures they are appropriately resourced. From 1 July 2016 the Internal Auditor who has also been assigned key Governance and Assurance responsibilities reports to the Company Secretary with direct engagement with the CFO, CEO and Chair of the ARC.

ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS (RECOMMENDATION 7.4)

Bega Cheese Group is committed to identifying and managing the economic, environmental and social sustainability risks that could substantively impact our ability to create or preserve value for our key stakeholders over the short, medium or long-term. The Group is producing a further sustainability report for FY2016, which will be available on the Group website later this year, this follows on from the FY2015 report which is available on the Group's website www.begacheese.com.au.

ECONOMIC SUSTAINABILITY

Economic sustainability risks for Bega Cheese Group are substantively controlled by maintaining market share, proper brand management, facilitating growth through appropriate acquisition, proper fiscal management and anticipating and responding to changes in domestic and overseas markets in which the Group operates.

Bega Cheese Group has medium and long-term contractual arrangements with key partners that provide guidance as to volume expectations, market share performance criteria as well as development of new business and products. Brand performance monitoring and market research is tasked to the sales and marketing team who also maintain direct relationships with domestic and overseas agents and monitor regulatory changes in key countries. Bega Cheese Group exercises strong fiscal control through rigorous management of capital and operational budgets. Business cases are developed and reviewed, which include financial modelling and sensitivity analysis for all major projects.

ENVIRONMENTAL SUSTAINABILITY

Bega Cheese Group manages risks related to environmental sustainability including the ability to secure milk from suppliers as well as risks associated with the manufacture of products. The Milk Sustainability and Growth Program is an innovative program to secure milk supply while ensuring suppliers are focussed on increased productivity and reducing their environmental footprint.

Major environmental spills, long-term environmental harm or licence breaches all represent risks to ongoing operations. The infrastructure at some sites limits the potential for expansion due to resource constraints such as access to water, energy and appropriate wastewater management options. These risks are managed through strategic site planning and close collaboration with local authorities and supply companies.

Operational environmental sustainability risks are managed by the Group's environment management systems. The manufacturing footprint and environmental performance of each site are monitored against resource consumption and waste production to deliver continuous improvement across a range of intensity indicators.

SOCIAL SUSTAINABILITY

As a food producer, Bega Cheese Group's social sustainability risks include matters relating to the safety of the Group's products and workforce as well as the role of the Group in our communities. Consumer safety is a top priority and any breach may result in reputational damage. The Group's mature quality management system includes quality assurance, with complete traceability of all ingredients and products.

Safety at sites across the Group is material to our social sustainability. Safety is a core value of the Bega Cheese Group, with the aim to drive a deep safety culture within the organisation and the health and safety program being well supported by staff. Bega Cheese Group also has a talent matrix to develop staff which complements a health and well-being program to help make Bega Cheese Group an employer of choice in the industry. Engagement surveys provide feedback from employees which informs plans to retain and attract qualified and talented staff.

With Bega Cheese Group being primarily based in regional locations, the sustainability of these communities is a fundamental cornerstone of the Group's approach to business and as a result, the Group seeks to support local organisations where possible. The Group makes significant contributions to charity through monetary contributions, encouraging staff to participate in volunteer work and partnering with organisations supporting rural activity such as the Rural Clinical School, Australian National University College of Medicine, Biology and Environment. The business also contributes to the development of skills through training programs for the farming community.

PRINCIPLE 8 - REMUNERATE FAIRLY AND RESPONSIBLY

NOMINATION, REMUNERATION AND HUMAN RESOURCES COMMITTEE (RECOMMENDATION 8.1)

The responsibilities of the NRHRC include matters relating to the remuneration policies and practices of the Group.

The membership and conduct of the NRHRC are set out at Principle 2 above. The composition of the NRHRC does not comply with Recommendation 8.1 as the Committee does not consist of a majority of Independent Directors. However, the Board believes that, in the context of the current make-up and size of the Board, the perspective and expertise that the current members bring to the NRHRC is appropriate.

STRUCTURE OF REMUNERATION

The remuneration of senior executives of the Bega Cheese Group is reviewed on an annual basis. Details of the remuneration structure for senior executives are set out in the Remuneration Report.

Details of the remuneration for Directors for their non-executive roles and the basis for the determination of the remuneration for executive roles are also set out in the Remuneration Report.


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/ INDEX TO THE FINANCIAL STATEMENTS

/ CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	CONSOLIDATED 2016 $'000	2015 $'000
Revenue	5	1,195,967	1,112,630
Cost of sales		(1,042,595)	(991,538)
Gross profit		**153,372**	**121,092**
Other revenue	5	6,032	6,519
Other income	5	1,415	1,312
Distribution expense		(49,781)	(46,112)
Marketing expense		(11,166)	(10,685)
Occupancy expense		(3,582)	(3,659)
Administration expense		(53,328)	(48,596)
Finance costs	6	(3,835)	(3,644)
Share of net profit of joint venture	24	773	207
Profit before income tax		**39,900**	**16,434**
Income tax expense	7a	(11,121)	(4,026)
Profit for the year		**28,779**	**12,408**
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss			
Cash flow hedges		311	(742)
Change in the fair value of other financial assets		(184)	-
Total other comprehensive income/(expense)		**127**	**(742)**
Total comprehensive income for the year		**28,906**	**11,666**
Profit attributable to owners of Bega Cheese Limited		28,779	12,408
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		28,906	11,666

		2016 Cents	2015 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic and diluted earnings per share	3	18.9	8.1

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

/ CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	9,658	10,284
Trade and other receivables	8	143,673	119,508
Derivative financial instruments	9	545	967
Inventories	10	192,398	194,889
Current tax assets		-	2,941
Total current assets		**346,274**	**328,589**
Non-current assets			
Other financial assets	9	729	-
Property, plant and equipment	11	219,944	209,706
Deferred tax assets	7d	10,329	11,230
Intangible assets	12	7,903	1,797
Investments accounted for using the equity method	24	1,495	1,097
Total non-current assets		**240,400**	**223,830**
Total assets		**586,674**	**552,419**
LIABILITIES			
Current liabilities			
Trade and other payables	13	156,044	139,081
Derivative financial instruments	15	1,583	993
Borrowings	14	15,235	11,474
Current tax liabilities		5,056	1,186
Provisions	16	31,335	26,553
Total current liabilities		**209,253**	**179,287**
Non-current liabilities			
Borrowings	14	47,500	57,500
Provisions	16	2,083	2,966
Total non-current liabilities		**49,583**	**60,466**
Total liabilities		**258,836**	**239,753**
Net assets		**327,838**	**312,666**
EQUITY			
Share capital	17a	103,942	103,942
Reserves	18a	21,058	20,931
Retained earnings		202,838	187,793
Capital and reserves attributable to owners of Bega Cheese Limited		**327,838**	**312,666**
Total equity		**327,838**	**312,666**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

/ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Share capital $'000	Share-based payment reserve $'000	Capital profits reserve $'000	Hedging reserve $'000	Available for sale reserve $'000	Transactions with non-controlling interests $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2014	103,642	811	33,959	187	-	(12,567)	188,356	314,388
Profit for the year	-	-	-	-	-	-	12,408	12,408
Other comprehensive (expense) for the year	-	-	-	(742)	-	-	-	(742)
Transactions with owners in their capacity as owners:								
- Issue of shares relating to incentives (note 17, 31)	300	(300)	-	-	-	-	-	-
- Share-based payments relating to incentives (note 31)	-	(373)	-	-	-	-	-	(373)
- Other share scheme movement (note 31)	-	(44)	-	-	-	-	-	(44)
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(12,971)	(12,971)
Balance as at 30 June 2015	**103,942**	**94**	**33,959**	**(555)**	**-**	**(12,567)**	**187,793**	**312,666**
Balance as at 1 July 2015	103,942	94	33,959	(555)	-	(12,567)	187,793	312,666
Profit for the year	-	-	-	-	-	-	28,779	28,779
Other comprehensive income for the year	-	-	-	311	(184)	-	-	127
Transactions with owners in their capacity as owners:								
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(13,734)	(13,734)
Balance as at 30 June 2016	**103,942**	**94**	**33,959**	**(244)**	**(184)**	**(12,567)**	**202,838**	**327,838**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

/ CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,241,063	1,160,805
Payments to suppliers and employees inclusive of goods and services tax		(1,174,917)	(1,164,837)
Interest and other costs of financing paid		(3,835)	(3,437)
Income taxes paid	7f	(3,331)	(9,876)
Net cash inflow/(outflow) from operating activities	19	**58,980**	**(17,345)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Tax paid on sale of shares in listed company	1c	-	(18,336)
Interest received		239	301
Dividend received		5	-
Payments for property, plant and equipment	11	(33,956)	(18,729)
Payments for intangible assets	12	(5,733)	-
Payments for shares in listed companies		(992)	-
Proceeds from sale of property, plant and equipment		428	89
Joint venture distributions received		375	259
Net cash (outflow) from investing activities		**(39,634)**	**(36,416)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		14,000	48,500
Repayment of borrowings		(20,238)	(114)
Dividends paid to members	4	(13,734)	(12,971)
Net cash (outflow)/inflow from financing activities		**(19,972)**	**35,415**
Net (decrease) in cash and cash equivalents		**(626)**	**(18,346)**
Cash and cash equivalents at the beginning of the year		10,284	28,630
Cash and cash equivalents at the end of the year	19	**9,658**	**10,284**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

HOW NUMBERS ARE CALCULATED

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

A. BEMORE JOINT OPERATION

During the period Bega Cheese Limited and Blackmores Limited entered into a Partnership Deed relating to the formation of the Bemore Partnership (Bemore) between the two companies to supply, market and sell life stage based nutritional powders. Bemore was launched on 16 January 2016. Refer to Note 24 for additional details on Bemore and the performance of the joint operation during the period.

B. MILK SUSTAINABILITY AND GROWTH PROGRAM

In March 2014, Bega Cheese Group announced it would allocate up to $25,000,000 to secure a long-term and sustainable milk supply. Farmer suppliers were invited to apply to enter the program with the first payments made in May 2014. Payments made under the Milk Sustainability and Growth Program are one-off in nature and intended to generate investments on-farm to improve sustainability of milk production, grow milk supply over time and secure the Group's milk pool in the medium term. The Milk Sustainability and Growth Program has been very well supported by farmer suppliers, with the program closing to new applications in February 2015. In total, $24,900,000 was paid out under the program. Amounts included in the financial statements are recognised on the basis of constructive obligations existing at reporting period end and are as follows:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Impact on cost of sales and EBITDA (note 2)	(604)	(13,727)
Impact on income tax expense (note 7)	181	4,118
Impact on profit for the year	**(423)**	**(9,609)**
Impact on cash flows for the year before tax	**(604)**	**(21,700)**

Of the $604,000 impact on cash flows paid out under the Milk Sustainability and Growth Program in FY2016, $Nil was held in accruals in the balance sheet at 30 June 2015.

C. SALE OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED (WCB) SHARES

In FY2014, Bega Cheese sold its complete holding of 10,521,910 WCB shares receiving $98,906,000. The cost of the shares sold were $32,851,000 and Bega Cheese incurred transaction costs of $4,030,000.

During FY2015 Bega Cheese paid $18,336,000 of tax on the sale of these shares. This impacted cash flows in FY2015 with no further impact to cashflow in FY2016.

D. COLES OWN BRAND CHEESE BUSINESS

In February 2016 Bega Cheese Group announced that Coles Supermarkets had provided notice of its intention to change suppliers for its own brand cheddar and processed cheese manufacturing and packaging from January 2017. The change in the supply agreement will see the Bega Cheese Group redirect the related milk supply and production capacity to other value added dairy products and increase focus on its infant formula and nutritional platform.

In July 2016 Bega Cheese Group announced that it had secured a significant component of the Woolworths own label cheese business commencing from January 2017.

E. IMPACT OF CURRENT YEAR EVENTS ON FINANCIAL PERFORMANCE

The impact of current year events on financial performance is included in the Chief Executive Officer's review of operations and activities and in note 2.

2. SEGMENT INFORMATION

A. DESCRIPTION OF SEGMENTS

The operating segments are based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group has two reporting segments that source, trade and utilise milk in the manufacture of the following products:

i. Bega Cheese – which manufactures natural cheese, processed cheese, powders, butter and packaged cheese products.

ii. Tatura Milk – which manufactures and packages cream cheese, butter, powders and nutritionals.

B. SEGMENT INFORMATION PROVIDED TO THE BOARD OF DIRECTORS

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2016 is as follows:

	Bega Cheese $'000	**Tatura Milk** $'000	**Group Eliminations** $'000	**Group Total** $'000
Year ending 30 June 2016				
Revenue	759,164	479,014	(42,211)	1,195,967
EBITDA	31,243	34,162	-	65,405
Depreciation, amortisation and impairment	(11,944)	(9,965)	-	(21,909)
EBIT	19,299	24,197	-	43,496
Interest revenue	288	155	(204)	239
Interest expense	(2,170)	(1,869)	204	(3,835)
Profit before income tax	**17,417**	**22,483**	**-**	**39,900**
Income tax expense	(4,487)	(6,634)	-	(11,121)
Profit after tax	**12,930**	**15,849**	**-**	**28,779**
Total segment assets	405,585	266,444	(85,355)	586,674
Total segment liabilities	162,819	103,833	(7,816)	258,836
Purchases of property, plant and equipment	20,915	13,041	-	33,956
Purchases of intangibles	5,733	-	-	5,733
Impact of current year events on EBITDA (note 1)				
Milk Sustainability and Growth Program	(717)	113	-	(604)

2. SEGMENT INFORMATION (CONT.)

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2015				
Revenue	724,974	432,118	(44,462)	1,112,630
EBITDA	29,597	12,381	-	41,978
Depreciation, amortisation and impairment	(11,994)	(10,220)	-	(22,214)
EBIT	17,603	2,161	-	19,764
Interest revenue	427	184	(297)	314
Interest expense	(2,203)	(1,738)	297	(3,644)
Profit before income tax	**15,827**	**607**	**-**	**16,434**
Income tax expense	(4,516)	490	-	(4,026)
Profit after tax	**11,311**	**1,097**	**-**	**12,408**
Total segment assets	387,208	245,452	(80,241)	552,419
Total segment liabilities	143,454	99,680	(3,381)	239,753
Purchases of property, plant and equipment	7,997	10,732	-	18,729
Impact of current year events on EBITDA (note 1)				
Milk Sustainability and Growth Program	(6,074)	(7,653)	-	(13,727)

C. OTHER SEGMENT INFORMATION

i. Segment revenue

Sales between segments are carried out at arm's length and eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Statement of Comprehensive Income. Segment sales by destination are as follows:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Sales to external customers in Australia		
Bega Cheese	632,080	604,464
Tatura Milk	261,123	197,302
Total sales to external customers in Australia	893,203	801,766
Sales to external customers in other countries		
Bega Cheese	116,657	111,081
Tatura Milk	186,107	199,783
Total sales to external customers in other countries	302,764	310,864
Total sales to external customers	**1,195,967**	**1,112,630**

Revenues of approximately $564,092,000 (2015: $480,768,000) are concentrated in a small number of external customers.

Segment sales by category are as follows:

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2016				
Core dairy ingredients	50,616	259,328	(42,211)	267,733
Consumer packaged goods	708,548	-	-	708,548
Nutritionals	-	219,686	-	219,686
Sales by category	**759,164**	**479,014**	**(42,211)**	**1,195,967**
Year ending 30 June 2015				
Core dairy ingredients	41,504	285,775	(44,462)	282,817
Consumer packaged goods	683,470	-	-	683,470
Nutritionals	-	146,343	-	146,343
Sales by category	**724,974**	**432,118**	**(44,462)**	**1,112,630**

ii. EBITDA
The Board of Directors assess the performance of the operating segments based on a measure of EBITDA. In addition, the Directors take into account current year events by segment so that underlying business performance is assessed.

iii. Segment assets and liabilities
The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of assets. These liabilities are allocated based on the operations of the segment. The eliminations relate to inter-segment debtors and creditors arising in the ordinary course of business.

3. EARNINGS PER SHARE

	CONSOLIDATED	
	2016 Cents	**2015** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic and diluted earnings per share	18.9	8.1
	2016 Number	**2015** Number
Weighted average of number of shares used as the denominator in calculating basic and diluted earnings per share	152,602,945	152,549,129
	2016 $'000	**2015** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	28,779	12,408

4. DIVIDENDS TO SHAREHOLDERS

	COMPANY	
	Full year 2016 $'000	**Full year 2015** $'000
Recognised amounts:		
2016 Interim dividend of 4.50 cents	6,867	-
2015 Final dividend of 4.50 cents	6,867	-
2015 Interim dividend of 4.00 cents	-	6,104
2014 Final dividend of 4.50 cents	-	6,867
Total dividend	**13,734**	**12,971**
Unrecognised amounts:		
2016 Final dividend of 5.00 cents	7,630	-
2015 Final dividend of 4.50 cents	-	6,867
Value of the dividend franking account	24,787	22,838

The dividends paid in 2016 and 2015 were fully franked. The 2016 final dividend will be fully franked.

The value of the dividend franking account represents the balance of the franking account as at the end of the year, adjusted for franking credits that will arise from payment of the current tax liability.

5. REVENUE AND OTHER INCOME

Revenue from continuing operations consisted of the following items:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Sales of goods	1,181,696	1,096,570
Services	14,271	16,060
Total revenue	**1,195,967**	**1,112,630**
Other revenue		
Royalties	5,173	5,266
Sundry income	394	835
Dividends	5	-
Rental revenue	460	418
Total other revenue	**6,032**	**6,519**
Other income		
Interest income	239	314
Other	1,176	998
Total other income	**1,415**	**1,312**

6. EXPENSES

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Loss/(profit) on disposal of property, plant and equipment	952	(30)
Operating lease rentals	1,764	1,734
(Decrease)/increase in inventory provisions	(1,461)	1,525
(Decrease) of bad and doubtful debts provisions	-	(84)
Depreciation of non-current assets	22,282	22,330
Impairment of tangible assets	-	200
(Write-back) of intangible assets - water rights licence	(373)	(316)
Employee benefit expense:		
- Defined contribution superannuation expense	12,950	11,793
- Other employee benefits expense	155,904	138,230
Total employee benefit expense	**168,854**	**150,023**
Finance costs:		
- Interest on bank loans	3,706	3,393
- Other finance costs	129	251
Total finance costs	**3,835**	**3,644**

7. INCOME TAX

	CONSOLIDATED	
	2016 $'000	**2015** $'000
A. INCOME TAX EXPENSE		
Current tax charge	(10,452)	(4,537)
Deferred tax (expense)/benefit from the origination and reversal of temporary differences	(847)	5
Adjustments recognised in the current year in relation to current tax of prior years	178	506
Total income tax expense	**(11,121)**	**(4,026)**

Judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on its understanding of the tax law. Where the final tax outcome of these matters is different from the amounts recorded, such differences will impact the amount of current or deferred income tax liabilities in the period such determination is made.

	CONSOLIDATED	
	2016 $'000	**2015** $'000
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	39,900	16,434
Tax (expense) at the Australian tax rate of 30% (2015: 30%)	(11,970)	(4,930)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	148	-
Non-deductible expenses	(47)	(212)
Other assessable income	(1)	-
Other deductible expenses	165	21
	265	(191)
Tax incentives	406	695
Adjustments in respect of prior year	178	506
Unrecognised tax losses	-	(106)
Total income tax expense	**(11,121)**	**(4,026)**

	CONSOLIDATED	
	2016 $'000	**2015** $'000
C. AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but through other comprehensive income in respect of:		
Fair value movement in investments	79	-
Movement in hedging reserve	(133)	318
Total amount recognised through other comprehensive income	**(54)**	**318**

D. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $'000	(Credited)/ charged to income $'000	(Credited)/ charged to equity $'000	Closing balance $'000
Year ending 30 June 2016				
Deferred tax assets				
Borrowing costs	9	(5)	-	4
Inventories	1,720	(1)	-	1,719
Sundry accrued expenses	1,115	(799)	-	316
Employee provisions	8,926	1,101	-	10,027
Share issue costs	505	(505)	-	-
Fair value of derivatives	60	(37)	(23)	-
Available for sale financial assets	-	-	79	79
Total deferred tax assets	12,335	(246)	56	12,145
Deferred tax (liabilities)				
Property, plant and equipment	(1,105)	(278)	-	(1,383)
Fair value of derivatives	-	-	(110)	(110)
Other	-	(323)	-	(323)
Total deferred tax (liabilities)	(1,105)	(601)	(110)	(1,816)
Total deferred tax	**11,230**	**(847)**	**(54)**	**10,329**
Year ending 30 June 2015				
Deferred tax assets				
Borrowing costs	13	(4)	-	9
Doubtful debts	28	(28)	-	-
Inventories	2,154	(434)	-	1,720
Sundry accrued expenses	1,629	(514)	-	1,115
Employee provisions	8,102	824	-	8,926
Share issue costs	505	-	-	505
Fair value of derivatives	-	-	60	60
Total deferred tax assets	12,431	(156)	60	12,335
Deferred tax (liabilities)				
Property, plant and equipment	(1,260)	155	-	(1,105)
Fair value of derivatives	(264)	6	258	-
Total deferred tax (liabilities)	(1,524)	161	258	(1,105)
Total deferred tax	**10,907**	**5**	**318**	**11,230**

	CONSOLIDATED	
	2016 $'000	**2015** $'000
E. DEFERRED TAX - RECOVERY OF ASSETS AND SETTLEMENT OF LIABILITIES		
Deferred tax assets expected to be recovered within 12 months	11,520	10,872
Deferred tax assets expected to be recovered after more than 12 months	625	1,463
Deferred tax liabilities expected to be settled within 12 months	(323)	-
Deferred tax liabilities expected to be settled after more than 12 months	(1,493)	(1,105)
Total deferred tax	**10,329**	**11,230**

7. INCOME TAX (CONT.)

	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
F. INCOME TAXES PAID		
Income taxes paid is included in the Consolidated Statement of Cash Flows as follows:		
Income tax (paid) included in operating activities	(3,331)	(9,876)
Income tax (paid) included in investing activities	-	(18,336)
Total income taxes (paid)	**(3,331)**	**(28,212)**

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
Trade receivables	133,469	105,218
Goods and services tax (GST) receivable	6,280	6,633
Prepayments	1,322	2,232
Accrued revenue	812	3,511
Other debtors	184	183
Advances for vat loans	220	451
Advances to suppliers	1,386	1,280
Total trade and other receivables	**143,673**	**119,508**

The average credit period for trade debtors is 30 days. No interest is generally charged on overdue debts.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 5.45% (2015: 5.45%). Advances to suppliers are prepayments for milk to assist with short-term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 7.26% (2015: 7.32%). Judgement is used in assessing trade receivables due from customers under product supply contracts that require a periodic reconciliation to specific terms of those contracts.

9. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
Current assets		
Fair value of derivatives	545	967
Total derivative financial instruments - assets	545	967
Non-current assets		
Available for sale financial assets - listed equity securities	729	-
Total non-current financial assets	729	-
Total financial assets	**1,274**	**967**

Derivative financial instruments relate to foreign currency contracts used for hedging. Further information on these contracts is given in note 21a. No material amounts were incurred due to ineffectiveness of cash flow hedges or gains or losses on fair value hedges attributable to the hedging instrument or the hedged item.

10. INVENTORIES

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Raw materials	116,028	125,954
Finished goods	76,370	68,935
Carrying amount of inventories at lower of cost or net realisable value	**192,398**	**194,889**

The write-down of inventories to net realisable value requires critical judgement in assessing future commodity prices and provisions for quality. Details of changes in inventory provisions are included in note 6.

11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Land and buildings		
At cost	104,106	99,413
Accumulated depreciation	(36,795)	(33,531)
Total land and buildings	67,311	65,882
Plant and equipment		
At cost	386,780	378,793
Accumulated depreciation	(260,547)	(249,938)
Total plant and equipment	126,233	128,855
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,856)
Total leased assets	-	-
Construction in progress	26,400	14,969
Total property, plant and equipment	**219,944**	**209,706**

/ NOTES TO THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT (CONT.)

The movements in property, plant and equipment are:

Consolidated	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Total $'000
Year ending 30 June 2016				
Balance at the beginning of the financial period	14,969	65,882	128,855	209,706
Capital expenditure	33,956	-	-	33,956
Disposals	-	(28)	(1,408)	(1,436)
Depreciation	-	(3,278)	(19,004)	(22,282)
Transfers	(22,525)	4,735	17,790	-
Balance at the end of the financial period	**26,400**	**67,311**	**126,233**	**219,944**
Year ending 30 June 2015				
Balance at the beginning of the financial period	5,977	68,053	139,537	213,567
Capital expenditure	18,729	-	-	18,729
Disposals	-	-	(60)	(60)
Depreciation	-	(3,104)	(19,226)	(22,330)
Impairment	-	(200)	-	(200)
Transfers	(9,737)	1,133	8,604	-
Balance at the end of the financial period	**14,969**	**65,882**	**128,855**	**209,706**

12. INTANGIBLE ASSETS

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Brand	405	405
Water rights	1,765	1,392
Software under development	5,733	-
Total intangible assets	**7,903**	**1,797**
Movement in intangible assets:		
Balance at the beginning of the financial period	1,797	1,481
Additions - Software under development	5,733	-
Write-back of water rights	373	316
Balance at the end of the financial period	**7,903**	**1,797**

Brand is comprised of the “Melbourne” brand for packing and distribution of cheese products under this label. The brand is considered to have an indefinite life due to the product life cycle and current market demand. Impairment was tested by reviewing the revenue and profits of “Melbourne” brand products.

Water rights were acquired as part of the acquisition of the Strathmerton facility and are attributable to the Bega Cheese segment. Impairment was tested by reference to third party market valuation based on recent transactions and related data.

Software under development consists of capitalised development costs and will be transferred to software and amortised once the asset is ready for use in its intended form.

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Trade payables	134,276	118,084
Deferred income	2,583	2,914
Accrued charges and sundry creditors	19,185	18,083
Total trade and other payables	**156,044**	**139,081**

The average credit period on purchases is the month end after the goods are received, except for utilities and certain professional fees. No material amounts of interest are charged on late payments and the amounts are unsecured.

Judgement is used in assessing trade payables due to customers under product supply contracts that require a periodic reconciliation to specific terms of those contracts. From time to time there may be differences of opinion between Bega Cheese Group and the customer as to the amount payable under the contracts. Such differences are usually resolved amicably between the parties having regard to the relevant contract. Where such differences are unresolved at reporting dates Bega Cheese Group seeks additional information and professional advice in the context of the relevant contract in forming a view as to the amount to be accrued for at the reporting date.

14. BORROWINGS

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Current - at amortised cost		
Secured term loans	15,235	11,474
Total current borrowings	15,235	11,474
Non-current - at amortised cost		
Secured term loans	47,500	57,500
Total non-current borrowings	47,500	57,500
Total borrowings	**62,735**	**68,974**

For further details on borrowings and facilities, see note 21.

15. DERIVATIVE FINANCIAL INSTRUMENTS - LIABILITIES

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Current liabilities		
Fair value of derivatives	1,583	993
Total derivative financial instruments - liabilities	**1,583**	**993**

For further details on derivatives, see note 21.

16. PROVISIONS

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Current liabilities		
Employee benefits	31,335	26,553
Total current provisions	31,335	26,553
Non-current liabilities		
Employee benefits	2,083	2,966
Total non-current provisions	2,083	2,966
Total provisions	**33,418**	**29,519**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The amount of the provision presented as current of $31,335,000 (2015: $26,553,000) is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Current leave obligations expected to be settled after 12 months	5,594	4,939

17. SHARE CAPITAL

A. SHARE CAPITAL

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Share capital - ordinary shares fully paid	**103,942**	**103,942**

B. MOVEMENT IN SHARE CAPITAL VALUE AND NUMBER OF SHARES

On 25 August 2014, 357,143 shares were issued to the Chief Executive Officer of Bega Cheese Group under the Bega Cheese Limited Long Term Incentive Plan. The movement is set out in the following table:

	Ordinary Shares Number '000	**Ordinary Shares** $'000
Ordinary shares on issue at 1 July 2014	152,246	103,642
Shares issued under Long Term Incentive Plan	357	300
Ordinary shares on issue at 30 June 2015	152,603	103,942
Ordinary shares on issue at 1 July 2015	152,603	103,942
Movements	-	-
Ordinary shares on issue at 30 June 2016	152,603	103,942

Ordinary shares entitle the holder to participate in dividends and share in the proceeds of winding up the Company 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 share is entitled to one vote.

18. RESERVES

A. RESERVES

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Share-based payment reserve	94	94
Capital profits reserve	33,959	33,959
Hedging reserve	(244)	(555)
Available for sale reserve	(184)	-
Transactions with non-controlling interests reserve	(12,567)	(12,567)
Total reserves	**21,058**	**20,931**

B. NATURE AND PURPOSE OF RESERVES

The share-based payment reserve is used to recognise the fair value of shares issued to employees by the Company.

The capital profits reserve is a historic reserve previously held to maintain adequate equity balances in the business.

The hedging reserve is used to record gains or losses on hedging instruments (cash flow hedges) that are recognised directly in equity, as described in note 32.

The available for sale reserve is used to record gains or losses on fair value movements on investments classified as available for sale (e.g. listed equities).

The transactions with non-controlling interests reserve records the difference arising as a result of the acquisition of the non-controlling interest in Tatura Milk.

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

For the purpose of the cash flow statement, cash includes cash on hand and in banks.

	CONSOLIDATED	
	2016 $'000	**2015** $'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	9,658	10,284
Balance per statement of cash flows	**9,658**	**10,284**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	28,779	12,408
Adjustments for:		
Depreciation of non-current assets	22,282	22,330
Loss/(profit) on sale of property, plant and equipment	952	(30)
Impairment of tangible assets	-	200
(Write-back) of intangible assets	(373)	(316)
Non-cash employee benefit (write-back) - share-based payments	-	(417)
Fair value adjustment to derivatives	1,457	818
Interest income received and receivable	(239)	(301)
Dividend receivable	(5)	-
Share of net profit of joint venture	(773)	(207)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables and GST recoverable	(25,075)	(11,580)
Inventories	2,491	(10,722)
Prepayments	910	(1,266)
Current and deferred tax assets	3,842	(5)
Increase/(decrease) in liabilities:		
Trade and other payables	16,963	(25,071)
Provision for income taxes payable excluding taxation on investments	3,870	(5,854)
Changes in provisions	3,899	2,668
Net cash flow from operating activities	**58,980**	**(17,345)**

RISK

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 7 – income tax, note 10 – inventories and note 13 – trade and other payables.

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not for trading or other speculative purposes. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Financial management is carried out by the treasury function within the finance department under policies approved by the Board of Directors and overseen by the Audit & Risk Committee. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units, by applying principles provided by the Board that has overall responsibility for risk management. The Board also approves policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments, and investment of excess liquidity.

A. MARKET RISK

The Group's activities expose it primarily to market risks in relation to foreign currency and interest rate movements. The Group enters into a variety of derivative financial instruments to manage exposures which include forward foreign currency contracts to hedge exchange rate risks from the sale of exported goods and purchase of imported goods.

Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's domiciled currency. The Group exports dairy products and is exposed to foreign exchange risk, primarily movements in exchange rates of US dollar. The Group also makes purchases including capital equipment, ingredients and packaging that exposes it to movements in exchange rates of US dollar and Euro. The risk is measured using sensitivity analysis and cash flow forecasting. Forward contracts are used to manage these risks.

The Group's risk management policy is to match known and highly probable future cash flows in foreign currencies, for cash flow and fair value hedge accounting purposes, with forward exchange contracts in the same currency and with closely corresponding settlement dates. 30-80% of its estimated foreign currency exposures in respect of forecast sales over the subsequent 12 months are hedged. All material foreign currency purchases are hedged on execution of contracts. The Group's exposure to foreign exchange risk at the end of the reporting period is expressed in Australian dollars and was as follows:

	CONSOLIDATED									
	USD 2016 $'000	JPY 2016 $'000	EUR 2016 $'000	NZD 2016 $'000	CNY 2016 $'000	USD 2015 $'000	JPY 2015 $'000	EUR 2015 $'000	NZD 2015 $'000	CNY 2015 $'000
Trade receivables	**19,429**	**-**	**556**	**252**	**31**	**25,911**	**-**	**-**	**-**	**-**
Trade payables	**3,689**	**-**	**1,029**	**-**	**-**	**-**	**-**	**169**	**-**	**-**
Forward exchange contracts										
Buy foreign currency (fair value hedges)	34,179	-	18,913	-	-	9,376	6	27,186	-	-
Sell foreign currency (cashflow hedges)	30,777	1,871	584	-	-	42,871	2,833	-	-	-
Sell foreign currency (fair value hedges)	17,684	-	-	1,362	-	20,259	-	-	-	-

/ NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL RISK MANAGEMENT (CONT.)

A. MARKET RISK (CONT.)

Group sensitivity

This is based on the financial instruments held on 30 June 2016, had the Australian dollar weakened or strengthened by 10% against the US dollar, the Euro and the Japanese Yen, with all other variables held constant. The analysis is performed on the same basis for 2015 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The Group sensitivity is detailed in the following table:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Equity		
AUD$ strengthens 10% - increase/(decrease)	(3,262)	(1,973)
AUD$ weakens 10% - (decrease)/increase	3,398	1,157

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Historically, the Group has used interest rate swaps to manage interest rate risk. Due to the relatively low level of borrowings, a historically low market rate and significantly changed facility agreements, the use of interest rate swaps (although no interest rate swaps where in place at 30 June 2016) is regularly monitored and reviewed as to their effectiveness by the Group. All borrowings were denominated in Australian dollars during 2016 and 2015.

As at the reporting date, the Group had the following interest bearing borrowings and assets outstanding:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Fixed rate instruments		
Assets		
Vat and supplier loans	1,606	1,731
Liabilities		
Bank overdrafts and loans	(235)	(474)
Variable rate instruments		
Assets		
Cash and cash equivalents	9,658	10,284
Liabilities		
Bank overdrafts and loans	(62,500)	(68,500)
Net exposure to interest rate risk on variable rate instruments	**(52,842)**	**(58,216)**

An analysis by maturities is provided in (c) below.

Group sensitivity

At 30 June 2016, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's post-tax profit for the year would have been $370,000 higher/(lower) (2015: $408,000 higher/(lower).

Price risk

The Group is exposed to equity securities price risk arising from investments held by the Group in listed entities. The Group manages its price risk by reviewing the risk across the operations of the whole Group in context of the different areas the business operates in.

At 30 June 2016, if the share price increased / (decreased) by +/- 10% from the year end prices with all other variables held constant, the Group's shareholders' equity for the year would have been ($51,000) higher/(lower) (2015: No impact as no equity securities held at 30 June 2015).

B. CREDIT RISK

Credit risk is managed on an entity basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of "AA" are accepted. For customers, the finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The compliance with credit limits by customers is regularly monitored by management.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 8. For customers, the Group generally retains title over the goods sold until full payment is received. For some trade receivables, the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit that can be called upon if the counterparty is in default under the terms of the agreement. In addition, the Group obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Cash and cash equivalents	9,658	10,284
Trade receivables	133,469	105,218
Accrued revenue	812	3,511
Other receivables	6,464	6,816
Vat loans to farmers	220	451
Advances to farmers	1,386	1,280
Fair value derivatives	545	967
Total credit risk exposure	**152,554**	**128,527**

There is considered to be limited credit risk in the balances of other receivables due to their nature as entities with which close commercial relationships are maintained, related parties or government debt.

The ageing analysis of trade receivables is set out in the table below. The credit quality of financial assets that are neither past due nor impaired is assessed based on the application of the credit risk policies described above.

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Not past due	118,883	92,232
Past due 0-30 days	11,722	10,997
Past due over 30 days	2,864	1,989
Trade receivables at 30 June	**133,469**	**105,218**

All impaired balances are more than 60 days overdue. The amounts past due relate to a number of customers where there is no history of default to the Group and are expected to be received in full.

21. FINANCIAL RISK MANAGEMENT (CONT.)

C. LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through committed credit facilities to meet obligations when due and to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

Financing arrangements

The Group had access to the following borrowing facilities at the end of the reporting period:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Undrawn facilities expiring within one year	67,765	71,526
Undrawn facilities expiring beyond one year	32,500	13,500
Drawn facilities	62,735	68,974
Total facilities	**163,000**	**154,000**
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	70,000	70,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	10,000	1,000
Inventory Facility	75,000	75,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	1,500	1,500
Total facilities	**163,000**	**154,000**

The Group financing arrangements include a syndicated facility structure funded by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Australia Branch) and Westpac Banking Corporation. During the year, the Group re-instated facility limits to include a 3.5 year Cash Advance Facility of $70 million due to expire on 31 January 2019, a 5 year Cash Advance Facility of $10 million, which is due to expire on 31 January 2020 and a Seasonal Facility that peaked during December 2015 at $40 million and expired in June 2016. The Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese and Tatura Milk.

In addition to the Syndicated Facility, the Group continues to operate three separate banking facilities. The Inventory Facility is due to expire on 31 March 2017. The Overdraft Facility and the Vat Financing Facility are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 23. The Overdraft Facility is due to expire on 1 July 2017, whilst the Vat Financing Facility is a revolving facility.

Under the terms of the Syndicated Facilities, the Group is required to comply with the following financial covenants:

a) the interest cover ratio must be equal or greater than 2.5 times
b) the leverage ratio must not be greater than 3 times and
c) shareholder funds must be equal or greater than $200,000,000

The Group has complied with these covenants throughout the reporting period.

Maturities of financial liabilities

The following table analyses the Group's financial liabilities. The amounts disclosed in the table are contractual undiscounted cash flows:

Consolidated	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2016						
Non derivatives						
Secured bank loans	(16,934)	(1,273)	(48,878)	-	(67,085)	(62,735)
Trade and other payables	(156,044)	-	-	-	(156,044)	(156,044)
Derivatives						
Inflows	105,369	-	-	-	105,369	105,914
Outflows	(103,294)	-	-	-	(103,294)	(106,952)
Total financial liabilities	**(170,903)**	**(1,273)**	**(48,878)**	**-**	**(221,054)**	**(219,817)**

	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2015						
Non derivatives						
Secured bank loans	(2,699)	(69,721)	-	-	(72,420)	(68,974)
Trade and other payables	(139,081)	-	-	-	(139,081)	(139,081)
Derivatives						
Inflows	102,531	-	-	-	102,531	103,063
Outflows	(103,889)	-	-	-	(103,889)	(103,089)
Total financial liabilities	**(143,138)**	**(69,721)**	**-**	**-**	**(212,859)**	**(208,081)**

21. FINANCIAL RISK MANAGEMENT (CONT.)

D. FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates to their fair values. All fair value instruments are measured using quoted prices from active markets where available.

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level under the following fair value measurement hierarchy:

i. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

ii. 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)

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at the end of the reporting periods:

Consolidated	**Level 1** $'000	**Level 2** $'000	**Total** $'000
Year Ending 30 June 2016			
Assets			
Derivatives used for hedging	-	545	545
Available for sale financial assets - listed equity securities	729	-	729
Total assets	**729**	**545**	**1,274**
Liabilities			
Derivatives used for hedging	-	(1,583)	(1,583)
Total liabilities	**-**	**(1,583)**	**(1,583)**
Year Ending 30 June 2015			
Assets			
Derivatives used for hedging	-	967	967
Total assets	**-**	**967**	**967**
Liabilities			
Derivatives used for hedging	-	(993)	(993)
Total liabilities	**-**	**(993)**	**(993)**

The Group did not hold level 3 assets or liabilities at reporting period ends.

22. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and generate adequate returns to shareholders. To ensure the Group is best placed to manage their objectives and to position it for the future, the Company listed on the ASX in August 2011.

Consistent with others in the industry, the Group monitors its capital on the basis of net debt, total equity and gearing ratio.

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Net debt: borrowings net of cash	53,077	58,690
Total equity	327,838	312,666
Net debt to equity ratio	**16%**	**19%**

GROUP STRUCTURE

23. PARENT ENTITY FINANCIAL INFORMATION

A. SUMMARY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	BEGA CHEESE	
	2016 $'000	**2015** $'000
Current assets	195,229	192,643
Total assets	405,585	387,208
Current liabilities	(147,161)	(124,339)
Total liabilities	(162,819)	(143,454)
Net assets	**242,766**	**243,754**
Shareholders' equity		
Issued capital of parent entity	104,512	104,512
Reserves		
Share-based payment reserve	94	94
Capital profits reserve	32,565	32,565
Fair value reserve	(184)	-
Retained earnings	105,779	106,583
Total equity	**242,766**	**243,754**
Profit after tax for the year	12,930	11,311
Total comprehensive income	12,747	11,311

B. GUARANTEES ENTERED INTO BY PARENT ENTITY

The parent entity has entered into a deed of cross guarantee in relation to the debts of its subsidiary as described in note 25.

/ NOTES TO THE FINANCIAL STATEMENTS

23. PARENT ENTITY FINANCIAL INFORMATION (CONT.)

C. CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015 except as disclosed in note 26.

D. CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT OR EQUIPMENT

As at 30 June 2016, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $5,627,000 (2015: $3,242,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. SUBSIDIARY AND JOINT ARRANGEMENTS

	Country of Incorporation	Nature of relationship	2016 % of ownership interest	2015 % of ownership interest
Tatura Milk Industries Limited	Australia	Subsidiary	100	100
Bemore Partnership	Australia	Joint Operation	50	-
Capitol Chilled Foods (Australia) Pty Ltd (CCFA)	Australia	Joint Venture	25	25

INTEREST IN JOINT OPERATION

Bemore Partnership

The Company has a 50% interest in a joint arrangement called the Bemore Partnership set up with Blackmores Limited to market, sell and distribute finished infant nutritional powders and other life stage dairy based nutritional powders. The following amounts are included in the Group's Financial Statements in relation to the joint operation, representing the Group's 50% share of the Bemore Partnership:

	BEMORE	
	2016 $'000	**2015** $'000
Revenue	3,254	-
Cost of sales	(1,945)	-
Gross profit	**1,309**	**-**
Other income and expenses	(2,123)	-
Loss for the year	**(814)**	**-**
Cash and cash equivalents	822	-
Trade and other receivables	626	-
Inventories	5,029	-
Total assets	**6,477**	**-**
Other payables	510	-
Payables to joint operators	1,781	-
Loans from joint operators	5,000	-
Total liabilities	**7,291**	**-**
Net liabilities	**(814)**	**-**

Accounting policies applied for the Bemore Partnership are described in note 32b.

INTEREST IN JOINT VENTURE

CCFA

The principal activity of the joint venture is liquid milk and chilled food distribution. The Group financial statements include the following results of the joint venture:

	CCFA	
	2016 $'000	**2015** $'000
Share of net profit of joint venture	773	207
Investments accounted for using the equity method	1,495	1,097

Accounting policies applied for the joint venture are described in note 32b.

25. CLOSED GROUP DISCLOSURE

Bega Cheese and Tatura Milk executed a deed of cross guarantee on 18 June 2012 under which each company guarantees the debts of the other. By entering into the deed, Tatura Milk has been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. The above companies represent a "closed Group" for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Bega Cheese Limited, they also represent the "extended closed Group".

/ NOTES TO THE FINANCIAL STATEMENTS

UNRECOGNISED ITEMS

26. CONTINGENT LIABILITIES

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 13). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. Based on all available information and professional advice, management considers there are no significant contingent liabilities at 30 June 2016.

27. COMMITMENTS

A. CAPITAL COMMITMENTS

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	9,828	7,597

B. LEASE COMMITMENTS - GROUP AS LESSEE

Non-cancellable operating leases consist of the following types:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Equipment	1,054	1,357
Motor vehicles	217	164
Land and buildings	5,862	7,127
Total lease commitments	**7,133**	**8,648**

The equipment leases have terms of up to five years and no option to extend. The motor vehicle leases typically run for a period of one to five years with an option to renew the lease after this date. The leases for land and buildings are due to expire between April 2018 and October 2021 with options to extend.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	CONSOLIDATED	
	2016 $'000	**2015** $'000
Within one year	2,054	2,036
Between one and five years	5,079	5,390
Later than five years	-	1,222
Total lease commitments	**7,133**	**8,648**

28. SUBSEQUENT EVENT

On 29 July 2016 Bega Cheese Group announced that it will be supplying Woolworths Supermarkets a significant component of their own label cheese from January 2017.

On 24 August 2016, the Directors declared a final fully franked dividend of 5.00 cents per share, which represents a distribution of $7,630,000.

OTHER INFORMATION

29. RELATED PARTY TRANSACTIONS

A. TERMS AND CONDITIONS OF RELATED PARTY TRANSACTIONS

Transactions between the Group and related parties are conducted on normal commercial terms and conditions. Those relating to KMP are detailed in the Remuneration Report.

B. RELATED PARTY TRANSACTIONS WITH GROUP ENTITIES

Details of transactions between the Group and other related parties are disclosed below.

During the period the Group had the following transactions with Bemore:

	CONSOLIDATED	
	2016 $	2015 $
Sales made to Bemore	13,403,881	-
Amounts payable by Bemore to Tatura Milk at period end	649,400	-

Further details of the joint operation are included in note 24.

During the period the Group had the following transactions with CCFA:

	CONSOLIDATED	
	2016 $	2015 $
Sales made to CCFA	6,447,274	6,708,412
Rent paid by CCFA to Bega Cheese	222,444	219,168
Amounts payable by CCFA to Bega Cheese at period end	417,431	430,456

Further details of the joint venture are included in note 24.

C. KEY MANAGEMENT PERSONNEL REMUNERATION

	CONSOLIDATED	
	2016 $	2015 $
Short-term employee benefits	4,554,786	3,563,229
Post-employment benefits	247,278	282,083
Other long-term employee benefits	159,845	150,288
Share-based payments	-	(372,630)
Total employee benefits	**4,961,909**	**3,622,970**

Further details of key management personnel remuneration are disclosed in the Remuneration Report.

30. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2016 $	2015 $
Audit Services		
PwC Australia - Audit and review of financial statements	417,800	380,000
Non-PwC Australia audit firms - Audit and review of financial statements of the joint arrangements	7,500	-
Non-audit Services		
PwC Australia - Other services	6,000	50,808
Non-PwC Australia audit firms - Other services	7,200	-

It is the Group's policy to engage PwC Australia on assignments additional to the statutory audit duties where their experiences with the Group is important. During the current and prior years PwC provided non-audit services relating to share schemes and tax advice.

31. SHARE-BASED PAYMENTS

A. EXPENSES ARISING FROM BEGA CHEESE LIMITED LONG TERM INCENTIVE PLAN

The Bega Cheese Limited Long Term Incentive Plan was established in 2012 and was designed to provide long-term incentives for the CEO to deliver shareholder returns.

The outcome of the 2012-15 Plan was determined in August 2015 resulting in $372,630 being credited to comprehensive income in FY2015. No performance rights were issued.

No further expense was incurred under the Plan and no further shares issued in FY2016. The expense arising from share-based transactions recognised during the prior period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	2016 $'000	2015 $'000
Entitlements due under employee share schemes		
Expense/(reversal) in relation to Long Term Incentive Plan	-	(373)
Other share scheme movement	-	(44)
Total employee share scheme expense	**-**	**(417)**

The movement on the share-based payment reserve is included in the Consolidated Statement of Changes in Equity.

32. 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 the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bega Cheese and the entities it controlled at years end or from time to time during the financial year. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 24 August 2016. The Directors have the power to amend and re-issue the financial statements.

A. BASIS OF PREPARATION

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. Bega Cheese is a for-profit entity for the purpose of preparing the financial statements and is a company limited by shares.

Compliance with IFRS

The consolidated financial statements of Bega Cheese also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the Group

There have been no new accounting standards interpretations or amendments to standards published that were mandatory for the first time for the financial year beginning 1 July 2015 that have a significant impact for the Group.

Early adoption of standards

The Group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments).

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the financial statements are disclosed in note 20.

/ NOTES TO THE FINANCIAL STATEMENTS

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2016 and the results of all subsidiaries for the year then ended. Bega Cheese and the entities it controlled together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

When the Group transacts with a joint operation as a joint operator (such as through a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

Details relating to the joint operation are set out in note 24.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

The interest in the joint venture investment is accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet. Under the equity method of accounting, the joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses of the joint venture in profit or loss, and the Group's share of movements in other comprehensive income of the joint venture in other comprehensive income. Distributions received or receivable from the joint venture are recognised as a reduction in the carrying amount of the investment. Details relating to the joint venture are set out in note 24.

C. SEGMENT REPORTING

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors.

D. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is Bega Cheese and its subsidiary's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

E. REVENUE RECOGNITION

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

The Group recognises revenue 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 Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Sale of goods and disposal of assets

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed to the buyer the significant risks and rewards of ownership of the goods.

Services

Revenue from services relating to certain production agreements with customers is recognised in the reporting period in which the services are rendered.

Royalties and rental revenue

Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Interest income

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

Dividends

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

F. GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the asset and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

G. INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. 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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

H. LEASES

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

J. IMPAIRMENT OF ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes 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 fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

K. CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

L. TRADE RECEIVABLES

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

Collectability of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within administration expense. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expense in profit or loss.

M. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Milk is valued at average annual cost, including committed price increases in respect of the reporting period.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

N. INVESTMENTS AND OTHER FINANCIAL ASSETS

Loans and receivables

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date that are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 8) in the balance sheet.

Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently carried at amortised cost using the effective interest method. They are derecognised when the rights to receive cash flows from them have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group assesses at the end of each reporting period whether there is objective evidence that a loan or receivable is impaired. A loan or receivable is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan or receivable that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Available for sale financial assets

Certain shares held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in note 21. Gains and losses arising from changes in fair value are recognised through other comprehensive income with the exception of impairment losses that are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

O. DERIVATIVES AND HEDGING ACTIVITIES

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. The Group does not enter into derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value assumes that the derivative is designated as a hedging instrument and depends on the nature of the item being hedged.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 21. Movements in the hedging reserve in shareholders' equity are shown in the Consolidated Statement of Changes in Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and otherwise as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or administration expenses.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

O. DERIVATIVES AND HEDGING ACTIVITIES (CONT)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within “revenue”. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged items that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or administration expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

P. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- buildings, 20 to 40 years
- plant and equipment, 5 to 20 years.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

Q. INTANGIBLE ASSETS

Brand names

Brand names recognised by the Group have an indefinite useful life and are not amortised. Each reporting period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life for the assets. Such assets are tested for impairment in accordance with the policy stated in note 32j.

Water rights

Water Rights are recognised at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 32j.

Software under development

Expenditure on the development of intangibles, such as software, for internal use is capitalised as an intangible asset. Internally developed intangibles with a finite useful life are carried at cost less accumulated amortisation and impaired losses.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- there is an ability to use the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and will be amortised from the point at which the asset is ready for use using the straight line method over its estimated useful life.

R. TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

S. BORROWINGS

Establishment fees are capitalised as a prepayment and amortised over the period of the facility to which it relates. Should it be probable that the facility will not be fully utilised, the related establishment fees are written off to profit and loss as soon as the underutilisation has been identified.

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

Borrowing costs are expensed as incurred as there are no significant qualifying assets.

T. PROVISIONS

Provisions for legal claims, warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

U. EMPLOYEE BENEFITS

Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave and annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 end of the reporting period. 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 end of the reporting period on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

/ NOTES TO THE FINANCIAL STATEMENTS

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

U. EMPLOYEE BENEFITS (CONT.)

Retirement benefit obligations

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. All employees receive fixed contributions from the Group and the Group's legal or constructive obligation is limited to these contributions.

Share-based payments

The fair value of rights granted under the Bega Cheese Long Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted at the beginning of the scheme, which includes any market performance conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of performance rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

V. CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

W. DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

X. EARNINGS PER SHARE

i. Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

ii. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Y. RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

AA. ROUNDING OF AMOUNTS

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AB. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Group's assessment of the impact of these new standards and interpretations as applicable to the Group is set out below.

i. AASB 9 *Financial Instruments* (effective for annual reporting periods commencing on or after 1 January 2018). Simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. The standard also introduces a new impairment model that will require companies to account for expected credit losses at the time the asset is recognised, rather than only incurred credit losses as is the case per AASB 139. The Group is currently assessing the impact of the changes.

ii. AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods commencing on or after 1 January 2018) The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Group is currently assessing the impact of the changes.

iii. AASB 16 *Leases* (effective for annual reporting periods commencing on or after 1 January 2019). AASB 16 will provide a comprehensive model for the identification and accounting treatment of lease arrangements, including a new accounting model for lessees that will require recognition of almost all lease arrangements on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The Group is currently assessing the impact of the changes.

iv. AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* (effective for annual reporting periods commencing on or after 1 January 2016). In January 2015, the AASB made various amendments to AASB 101 as part of the Disclosure Initiative which explores how financial statement disclosures can be improved. The amendments clarify guidance in AASB 101 on materiality and aggregation, presentation of subtotals, structure of financial statements and disclosure of accounting policies.

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

AC. PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Bega Cheese, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below:

i. Investments in subsidiaries and joint venture entities

Investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of Bega Cheese.

ii. Dividend income

Dividends receivable from subsidiaries and joint venture entities are included in Bega Cheese's income statement.

/ DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 38 to 77 are in accordance with the *Corporations Act 2001*, including:

   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

c. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

Note 32 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Melbourne

Raelene Murphy
Independent Director
Melbourne

24 August 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEGA CHEESE LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Bega Cheese Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for the Bega Cheese Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at years end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 32, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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INDEPENDENCE

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

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Bega Cheese Limited is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 32.

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 23 to 29 of the Directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

SJ Bourke
Partner

Sydney
24 August 2016

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/ SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2016:

DISTRIBUTION OF EQUITY SECURITIES

Holding	Number
1 – 1,000	4,484
1,001 – 5,000	2,971
5,001 – 10,000	535
10,001 – 100,000	479
100,001 and over	168
	8,637

There were 280 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number of shares	% of issued shares
Perpetual Limited	8,414,414	5.5%
Karara Capital Limited	6,876,900	4.5%
BT Investment Management Limited	6,383,569	4.2%
Ausbil Investment Management Limited	5,580,785	3.7%
RE Platts*	3,480,014	2.3%
Aljo Pastoral Pty Ltd*	2,704,984	1.8%
Jerang Pty Limited*	2,664,012	1.7%
Vanguard Investments Australia Limited	2,506,376	1.6%
Australian Foundation Investment Company Limited	2,202,800	1.4%
JL & KD Kimber	2,140,066	1.4%
The Vanguard Group, Inc	2,127,254	1.4%
R & R Apps Pty Ltd	1,823,972	1.2%
PC Shearer	1,681,408	1.1%
Redpoint Investment Management Pty Ltd	1,627,691	1.1%
S & M Roberts*	1,555,000	1.0%
NG & NG Pearce	1,536,888	1.0%
PJ, CL & AL Collett	1,521,116	1.0%
Norges Bank Investment Management	1,491,436	1.0%
State Street Global Advisors Australia Limited	1,409,397	0.9%
G & NE Lucas	1,389,996	0.9%
	59,118,078	**38.7%**

*Shareholdings related to KMP including Directors are detailed in the Remuneration Report.

/ SHAREHOLDER INFORMATION

SUBSTANTIAL HOLDERS

No shareholder holds more than 10% of the issued capital of the Company. Under the Company's constitution a shareholder limit of 10% is in place until 16 August 2016. In accordance with Rule 3.10 of the Bega Cheese Limited Constitution, at the 2015 Annual General Meeting the shareholders voted to increase the shareholder limit to 15% for a further five years from 17 August 2016, after which time it will be removed.

VOTING RIGHTS

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

/ CORPORATE DIRECTORY

ADVISORS

Auditor
PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

Solicitors
Addisons
Level 12, 60 Carrington Street
Sydney NSW 2000

Bankers
Rabobank Australia Limited
Level 16
Darling Park Tower 3
201 Sussex Street
Sydney NSW 2000

Westpac Banking Corporation
360 Collins Street
Melbourne VIC 3000

Commonwealth Bank of Australia
192-194 Carp Street
Bega NSW 2550

Stock Exchange Listing
Bega Cheese Limited shares are listed on the Australian Securities Exchange (ASX) – Code BGA

DIRECTORS & COMPANY SECRETARIES

Directors
Barry Irvin
Executive Chairman

Richard Cross
Director

Peter Margin
Independent Director

Raelene Murphy
Independent Director

Jeff Odgers
Director

Richard Parbery
Director

Richard Platts
Director

Max Roberts
Director

Company Secretaries
Brett Kelly
Colin Griffin

EXECUTIVE TEAM

Aidan Coleman
Chief Executive Officer

Colin Griffin
Chief Financial Officer

Paul van Heerwaarden
General Manager Sales & Marketing

David McKinnon
General Manager Human Resources

Garth Buttimore
General Manager Operations

/ CORPORATE DIRECTORY

ENTITY INFORMATION

Bega Cheese Limited
Trading as "Bega Cheese"
ABN 81 008 358 503
The Annual Report includes the results of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the subsidiary, joint venture and joint operation. Bega Cheese and its subsidiary together are referred to in this financial report as Bega Cheese Group (Group or consolidated entity).

Tatura Milk Industries Limited
Tatura Milk Industries Limited (subsidiary or Tatura Milk) is the 100% subsidiary of Bega Cheese.

Capitol Chilled Foods (Australia) Pty Ltd
Capitol Chilled Foods (Australia) Pty Ltd (joint venture or CCFA) is the 25% joint venture of Bega Cheese.

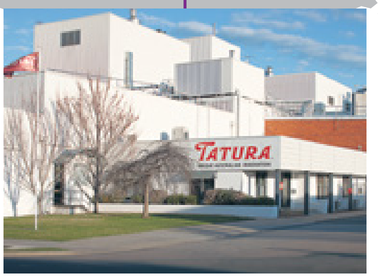
Bemore Partnership
Bemore Partnership (joint operation or Bemore) is the 50% joint operation of Bega Cheese.

Principal Registered Office
23-45 Ridge Street
Bega NSW 2550
T: 02 6491 7777
E: admin@begacheese.com.au
W: www.begacheese.com.au

Share Register
Link Market Services Limited
Level 1, 333 Collins Street
Melbourne VIC 3000
T: 1300 554 474

Reporting Period
This annual report is for the year ended 30 June 2016 and is referred to as FY2016.

/ OUR SITES



TATURA
236 Hogan Street
Tatura VIC 3616 Australia

DERRIMUT
11 Benn Court
Derrimut VIC 3030 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

BEGA CHEESE MANUFACTURE
11-13 Lagoon Street
Bega NSW 2550 Australia

COBURG
10-16 Allenby Street
Coburg VIC 3058 Australia

PORT MELBOURNE
664 Lorimer Street
Port Melbourne VIC 3207 Australia

BEGA HEAD OFFICE AND PROCESSING & PACKAGING PLANT
23-45 Ridge Street
Bega NSW 2550 Australia