# 2013 ANNUAL REPORT BEGA CHEESE LIMITED

*The images included in this Annual Report represent a selection of Bega Cheese Group's products, locations, staff, suppliers and their farms. The following have been featured:*

*Page 7:*
*Milk separators at Tatura Milk*
*Local suppliers to Bega Cheese*
*Cheese manufacture at Strathmerton site*

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Bega
STRONG & BITEY
STICKS
TATURA
BUTTER
Bega
SINCE 1899
BAR-B CUBES
Royal Victoria
Cream Cheese
BELLAMY'S
organic
toddler
milk drink
Bega
8 PACK
FARMERS' TASTY STICKS
CREAM CHEESE
REGULAR
Bega
8 PACK
Original
STRiNGERS
100% Natural Cheese
Bega
STRONG & BITEY
VINTAGE
Aiyumye
爱怡乐
Bega
TASTY
Bega
BLACK PEPPER SLICES
Bega
The Great Australian Cheese
Ozcare
Bega
CREAM CHEESE
2kg NET
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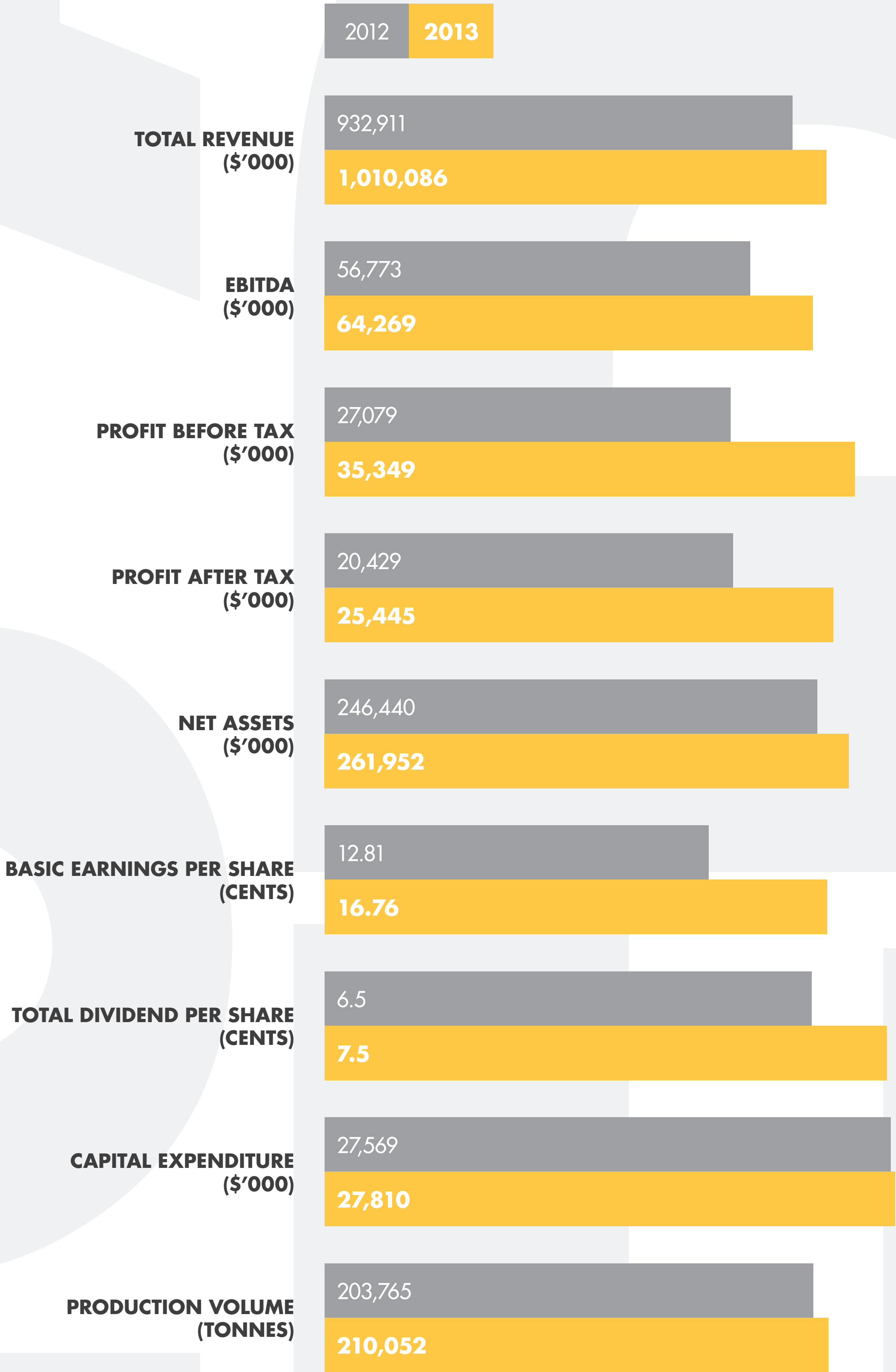
SANDWICH SLICES
Bega
COUNTRY LIGHT
TASTY
TATURA
Pasteurised
CREAM CHEESE
Bega
STRONG & BITEY
Bega
Cheddar

# PERFORMANCE HIGHLIGHTS



# EXECUTIVE CHAIRMAN'S REVIEW

"The foundations of the Bega Cheese Group's business have always been built on meeting our customers' needs, delivering excellent quality dairy products and building long term relationships."

A focused strategy and investment program has once again delivered positive results for the Bega Cheese Group. Investments in our key platforms of consumer cheese contract processing and packaging, nutritional products and core dairy ingredients continue to position the Group well to service the needs of our Australian and international customers.

In a year that presented significant industry challenges in the form of a highly competitive Australian market place, lower international dairy commodity prices and a historically strong Australian dollar, the business has performed well. The resilience and strength of our business models and strategy are best demonstrated by growth in key financial metrics including growth of 8% in revenue, EBITDA growth of 13%, EPS growth of 31% and profit after tax growth of 25%. The Board has approved a fully franked dividend of 4.0 cents per share with a payment date of 16 September 2013. The final dividend combined with our interim dividend of 3.5 cents represents dividend growth of 15%.

The foundations of the Bega Cheese Group's business have always been built on meeting our customers' needs, delivering excellent quality dairy products and building long term relationships. The 2012/13 year (FY2013) demonstrated the value of our long term business relationships. Key business developments included the revision and extension of our long term product supply agreement with Fonterra (the world's largest dairy exporter) the revision and extension of our supply agreement with Ingredia (a French dairy nutritionals company), the renegotiation of our infant formula manufacturing agreement with Mead Johnson (one of the world's largest infant formula companies), the successful implementation of our five year cheese supply agreement with Coles and the continued development of long term business relationships with companies such as Kraft, Woolworths, Lacto Japan, Snow Brand, ALDI and Morinaga.

Bega Cheese Group's important relationships obviously also include our dairy farmer suppliers. It has been a challenging year for many of our dairy farmers, lower farm gate milk prices combined with increased costs and difficult seasonal conditions resulted in many farmers having financial difficulties. While farm gate milk pricing ultimately is a reflection of market returns, the Group is very conscious of the importance of a long term sustainable supply and our relationship and reputation with our suppliers.

The Group was very focused this year on assisting our farmers with improved milk pricing whenever market improvement and business performance allowed. Throughout FY2013 we regularly reviewed our Victorian farm gate milk price in an endeavour to improve returns to our farmers. In the closing months of FY2013 we further increased both our NSW and Victorian milk price. The Group's goal of ensuring we have a sustainable supply base through being responsive to supplier circumstances and paying a leading manufacturing price for our milk was demonstrated this year. We were very pleased that in difficult times on farm we were able to respond with milk price increases that resulted in the company paying a leading milk price when compared to other large manufacturing companies.

The Group has continued a focused investment program. The Group always strives to invest in a manner which ensures our products are globally competitive, our environmental and safety performance is enhanced and our capital allocation delivers appropriate returns while building on the strategic positioning of the Group.

The capital expenditure program for this year has included investment in our cheddar cheese, cream cheese and dairy nutritionals manufacturing capacities and capabilities. All these investments have been consistent with our strategy of responding to customer demand, maximising the value of the components of milk and focusing investment on the key product platforms of the business. Importantly our recently announced investment in nutritionals blending and canning infrastructure will increase our capacity to maximise the value of our products and respond to the ever increasing demand for high quality, Australian produced dairy products.

The Australian dairy industry has a great many opportunities particularly from our near neighbours in South East Asia. However those opportunities should not be taken for granted. The Australian dairy industry is genuinely globally competitive but we should never doubt the strength and focus of our competitors.

The opportunity for further rationalisation in the Australian dairy industry remains. The Group continues to be well positioned to participate in this rationalisation. Bega Cheese has increased its investment in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) this year. We continue to believe that WCB remains an important investment for the Group and we will continue to consider our strategic options in terms of this investment.

As we approach the federal election it is disappointing that we have not seen a stronger focus by federal politicians in the area of free trade agreements, dairy innovation and research and regional development. The Board and I have a strong belief that government should not subsidise industries that are clearly not globally competitive and as a consequence amongst other things lessen our capacity to negotiate free trade agreements. The Australian dairy industry is globally competitive, has a product the world wants and must position itself for the future. Government has a role to play in this. The support of research and innovation, the investment in infrastructure and the breaking down of trade barriers continue to be areas that Bega Cheese Group would like to see our federal government focusing on regardless of political persuasions.

Bega Cheese Group has a unique position in Australian business.
A successful regional manufacturing company employing in excess of 1,600 people, an important supplier of dairy products to both the Australian and international market, a long history and relationship with our dairy farmer suppliers and a strong supporter of the communities in which we operate.

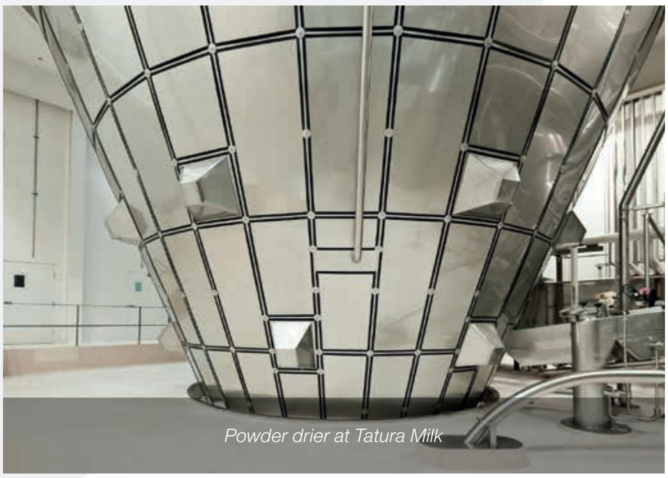
With a history going back more than 100 years, we are very proud of what the company has achieved over the decades and are always conscious of remembering our past while planning for the future.

It is in our culture to always endeavour to live up to the expectations of all our stakeholders, be they shareholders, staff, suppliers or the communities we operate in. In a year of challenges we have continued to build for the future while delivering improved financial performance. I would like to acknowledge the contributions to this success by CEO Aidan Coleman, his executive team and the staff at Bega Cheese Group. On a personal note I would like to thank the Board for their support, counsel and guidance, the executive and staff for their efforts and our shareholders for their ongoing support.

B.A. Irvin

**Barry Irvin**
*Executive Chairman*
*22 August 2013*

*Cream cheese production*


*Powder drier at Tatura Milk*


*Lagoon Street site*

# CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

It is pleasing to note that, in the face of global volatility and internal change, our business model has generated strong business performance while also delivering a leading manufacturing milk price to our farmer suppliers.

The FY2013 year highlighted the cyclical nature of agriculture and the subsequent impacts on global dairy production resulting from droughts in New Zealand, unseasonably cold weather in northern Europe, high feed input costs in the USA and our own weather events affecting the dairy industry in Australia. In addition to these issues the past year saw global dairy commodity prices fall and then increase steadily over the second half of the year while the Australian currency reached exceptionally strong levels before retreating significantly toward the end of the financial year.

The year has also seen significant levels of internal reorganisation following the full merger of Tatura Milk with Bega Cheese at the end of 2011. The resulting structure enables the business to invest resources and capital in its key business platforms, namely nutritional products, consumer cheese contract processing and packaging, and core dairy ingredients. These platforms are aligned to the strategic direction of the Group.

## EARNINGS

The Group is very pleased to have generated continued growth in earnings per share (EPS). The EPS for FY2013 was 16.76 cents which represented a growth of 31% over the prior year, in line with overall earnings growth which is now fully attributed to Bega Cheese shareholders. The Board has announced a year-end dividend of 4.0 cents per share, bringing the full year dividend to 7.5 cents per share.

Despite the high value of the Australian currency impacting export returns over most of the year the business was able to generate 8% year-on-year growth in sales revenue to complete FY2013 with record revenue of $1,010 million. The Group considered this increase of approximately $77 million on the prior year to be acceptable given that high exchange rates and volatile commodity prices impacted international returns. The resulting EBITDA from this activity was $64 million with a growth of 13% over the prior year. The Group is focused on building a strong diversified dairy food business that is underpinned by a viable milk production resource and hence it has led the way in milk payments to farmers supplying manufacturing dairy companies.

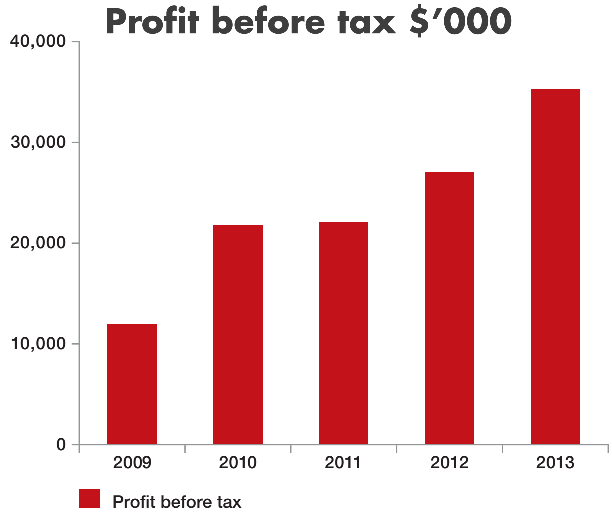
The ability of the Group to achieve strong financial and operational outcomes is based on its continuing focus on a well-defined strategy of moving its product mix toward higher value, more technically sophisticated, dairy based products. In the past year we have seen growth in our core contract manufacturing business that focuses on natural and processed cheese products for the retail and foodservice segments both domestically as well as into our markets in Asia and the Middle East. We have also seen growth in other key product groups including cream cheese and infant nutritional powders.

Net profit after tax was $25 million. This is a strong result given the internal restructuring and organisational development implemented over the year. It is notable that interest charges declined over the prior year, reflecting not only the recent Reserve Bank base interest rate changes, but also improved banking arrangements and strong debt management controls within the Group.


The Group reports its business in two operating segments being Bega Cheese and Tatura Milk. Bega Cheese had a strong result in FY2013 driven by increased sales and strong production volumes in fast moving consumer goods (FMCG). Revenue was up 12% from $614 million to $690 million, with domestic contract packaging demand contributing the majority of the increase. Although milk supply volumes were strong, less milk was used in cheese production as the Group sought to increase profitability by using milk solids in higher margin products. As a result of these factors, EBITDA increased from $27 million in FY2012 to $37 million in FY2013, with profit after tax reaching $13 million in FY2013.

Tatura Milk experienced more difficult trading conditions than Bega Cheese due to being more exposed to the commodity cycle. Revenue in FY2013 was in line with FY2012 at $336 million. However, increasing milk prices and lower milk intake resulted in a fall in EBITDA from $29 million in FY2012 to $27 million in FY2013. Although production fell slightly to 73,296t, it was pleasing to see an increase in cream cheese and lactoferrin production, utilising additional capacity created during the year. Profit after tax for FY2013 was $13 million, which was a reduction on FY2012 of 14%.

## Profit before tax $'000



# CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

## CASH FLOWS AND DEBT

We are pleased with our overall cash management and it is noteworthy that the strong business performance together with highly focused cash management has enabled the Group to reduce net debt to $87 million at 30 June 2013. Good cash flow management also helped strengthen the balance sheet and the increase in net assets by 6% to $262 million was a solid performance.

The Group achieved a net improvement in its cash flow position. It generated $62 million net cash inflow from operating activities in FY2013, compared to a net outflow of $11 million in the prior year. This change largely reflected the completion of building up the maturing cheese inventory for the supply contract with Coles supermarkets. This business is now reaching a steady state of demand that results in a relatively stable requirement for cash invested in cheese inventory.

The other key elements of cash flows in FY2013 include:

- capital spend on property, plant and equipment of $28 million
- dividends paid to members of $11 million
- additional purchase of shares in WCB of $3 million.

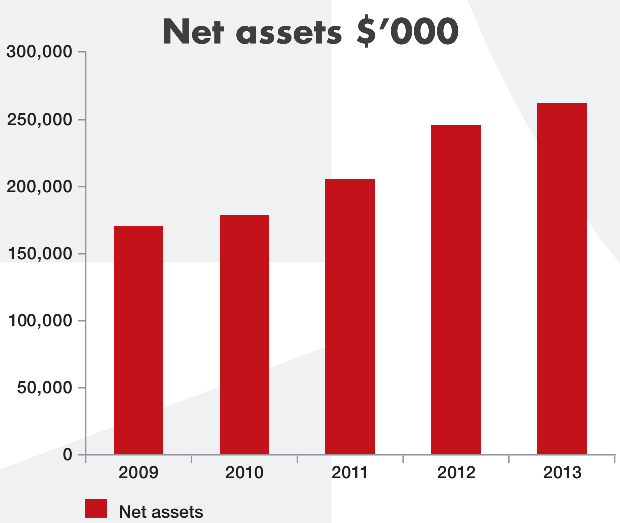
Using a staged approach, the Group has established core debt facilities which enhance the tenor and flexibility of the borrowing structure. The new syndicated facility also provides more favourable commercial terms.

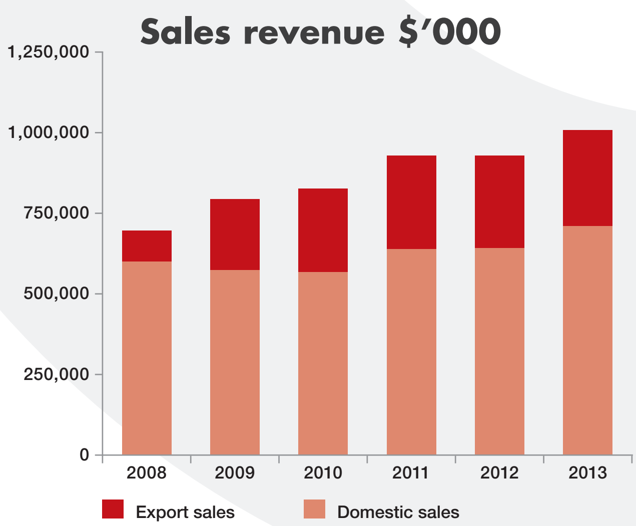
## MARKETS AND CUSTOMERS

The Group has been consistent in its focus on our key business platforms which are centred around infant and growing up nutritional dairy products, cream cheese and the cut, pack and processed consumer cheese products. In FY2013 we achieved revenue of $1,010 million. This increase of approximately $77 million was generated from growth across all of our key business platforms. We drove solid growth in our contract cut, pack and processing of cheese at the Ridge Street and Strathmerton facilities while new cream cheese capacity at Tatura Milk enabled the Group to meet its growing customer demand for cream cheese into the Asian retail, bakery and industrial sectors.

It is well documented that there is continuing growth in demand for infant and child nutritional dairy products in China, particularly for products manufactured and fully packaged in countries such as Australia. The Group is continuing to experience increasing demand for its infant and growing up nutritionals and has recently announced that it is investing in an infant formula canning facility in Australia to meet the demand for canned nutritional powders. We believe that this investment is a strong endorsement of Australia's reputation for bio-security and innovative food production.

While we are a committed Australian food manufacturer we recognise the difficulties in remaining competitive against producers internationally and work hard to ensure we continue to invest in technical capabilities and plant to remain globally competitive. The Group has always been a proponent of the



nation's strategic capability in food manufacturing and it is well understood that international investors in Australian food resources place a higher value on those resources than is evidenced by the domestic private and public sectors.

## SAFETY

Safety always is a core value of the Group. Our aspiration is to operate in a zero harm manner and we believe that the personal safety of our employees is our highest operating priority. While we have made significant progress in safety management systems and processes we recognise that we have some way to go to achieve our target of zero harm. Our focus on safety has resulted in a 32% decline in our Lost Time Injury Frequency Rate since the prior year. We have also implemented a safety observation programme that requires all senior staff to undertake regular safety observations in our operations over the year. This has been successful in raising the awareness and commitment to safety as well as providing strong visibility of managers within the operating units.

## OPERATIONS

We continue to operate five production facilities consisting of:

Bulk cheddar, cheese snacks and whey powder
Lagoon Street, Bega NSW

Bulk cheddar and mozzarella
Coburg, Melbourne VIC

Cut, pack and processed cheese
Ridge Street, Bega NSW

Cut, pack and processed cheese
Strathmerton VIC

Infant powders, cream cheese, milk powders, milk protein concentrate, lactoferrin, frozen cream & butter
Tatura VIC

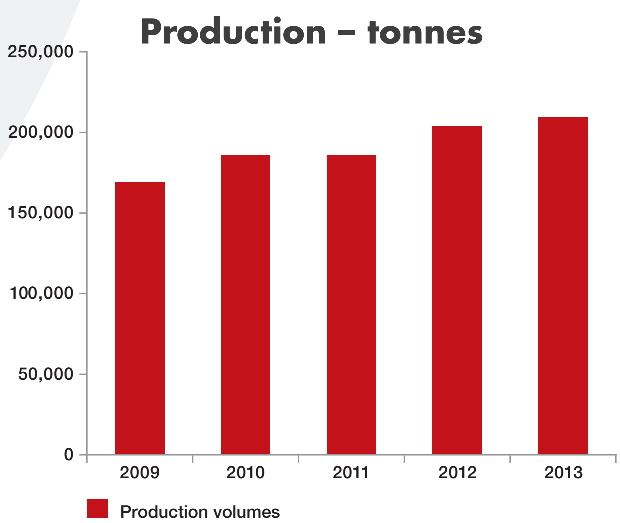
We have continued to invest in production capacities over the year, including expenditure on expanding lactoferrin production, completing the cream cheese expansion, cheddar production efficiencies at Coburg, whey processing capability at Coburg and Tatura Milk and cheese packing upgrades at Strathmerton and Ridge Street. These investments are aligned to our strategies and are core to our commercial ethos of fully utilising all dairy solids contained in the liquid milk stream.

The Group has increased its total production volumes by 3% over the prior year, reaching a record production level of 210,052 tonnes. In FY2013 we experienced high production levels across all sites although there was a softening in the last quarter due to weather conditions causing lower milk production on farm in NSW and VIC/SA over the autumn.

The Ridge Street factory operated effectively throughout FY2013 and recovered strongly from the difficulties experienced in the previous year that related to a change in packaging supply. Strathmerton improved significantly on the back of higher production volumes and a strong focus on performance improvement. Coburg generated record production outputs and further investment has been made to remove bottlenecks from its cheddar process to create further capacity to grow volume. Tatura Milk produced record volumes of nutritional powders and cream cheese following investments in these areas and that business continued to maintain strong operational performance. The Tatura Milk operation is now central to milk balancing across the Group as it is able to produce a range of commodity dairy products including milk powders and butter when global prices are favourable. The Lagoon Street cheese and whey powder operation performed well throughout the year producing table grade cheese largely designated for use in consumer packs.

## MILK PRODUCTION

Total milk collected across New South Wales, Victoria and South Australia from the Group's own direct supplier base was 641 million litres. This milk intake was well aligned to our product demand. The Group has chosen to limit the volume of milk purchased externally on contract in order to de-risk the ratio of milk supply to production capacity over the spring peak of on-farm milk production.



# CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

## INVESTMENTS

The Group increased its shareholding in Warrnambool Cheese & Butter Factory Company Holdings (WCB) during the year. The Group received dividends from WCB of 11 cents per share in FY2013, compared with 15 cents per share in FY2012, with the performance of WCB being on the public record. The Group has maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra. CCFA continues to trade strongly although its performance has been significantly impacted by the competitiveness of retail milk pricing.

## ENVIRONMENT

The Group recognises the need to become a more sustainable business and create more efficient manufacturing sites (reducing resource intensity). We also encourage our farmer suppliers to better manage on-farm sustainability issues. The Group has a strategic plan for energy and carbon management and is implementing circa $4 million of energy related projects at our production sites. The Group has also set targets to reduce energy intensity by 5% by 2015.

Our on-farm focus through the Bega Cheese Environment Management System (BEMS) is industry leading and is being fully embraced across our milk supplier base. Support through government grants such as Caring for Our Country has allowed a major push on energy efficiency that has reduced on-farm carbon emissions and delivered annual savings of circa $2,000 per farm.

The Group fulfilled its direct carbon tax obligation of $660,000 for gas use at the Tatura Milk site and expects that the full implication for FY2013 will be approximately $900,000. Projects have been implemented with funding support from the Clean Technology Investment Program at our sites in the Bega Valley and the Group has applied for further funding of capital projects at Tatura Milk to reduce energy usage and costs.

## PEOPLE & CULTURE

Following the merger of the Bega Cheese and Tatura Milk businesses and the subsequent structural reorganisation the Group has developed and is implementing a single set of core values to reflect our behavioural expectations.

- Thinking customer, valuing supplier
- Safety always
- Taking ownership
- Right first time
- Being agile
- Supporting each other


*Executive Team, left to right: David McKinnon, Colin Griffin, Grattan Smith, Aidan Coleman, Paul van Heerwaarden, Garth Buttimore.*

The six values were derived by a team compiled from all areas of our operations, followed by broad consultation within the business. These values represent the essence of Bega Cheese Group together with several aspirational values that we consider to be part of our future. The values set the tone for how we behave as a business and for accountability as individuals.

## STRATEGIC OUTLOOK

The Group continues to build its business strategies around long term agreements based on its operating platforms of consumer cheese contract processing and packaging, nutritional products and a core dairy ingredients base focused on cream cheese, whey powders and a range of general milk fat and milk powder products. Our objective is targeted investment in these platforms to enable the Group to continue to enhance value of its productive outputs while also striving to generate a viable and sustainable milk supply base. We consider that this investment program, together with improving global dairy pricing and an Australian currency more favourable for exporting, places the Group in a strategically strong position with good prospects in the coming years. However, adverse weather conditions, significant variances in currencies and commodities or any political change domestically or internationally may cause us to revise our strategies to take account of material changes and we remain alert and ready to quickly adapt should changes be required.

## OUR TEAM

The Group has undergone extensive change in business complexity and organisational design during FY2013. This would not have been possible without the passion and commitment of our 1,600 plus employees, both permanent and casual. I would like to take this opportunity to recognise and thank all employees for their achievements over the year. The only certainty I can be sure of next year is that it will be just as busy and just as competitive. However we should gain satisfaction from knowing that customers in Australia and around the world recognise our products for their quality and demand them. Our ongoing ability to provide safe food for demanding markets is key to ensuring the sustainability of our operations, our employees, suppliers and the rural communities in which we operate.

In closing I would like to recognise and thank the Board of Directors and our Executive Chairman, Barry Irvin, for the strategic vision, guidance and passion for the business. FY2013 was another benchmark year for Bega Cheese Group.

**Aidan Coleman**
*Chief Executive Officer*
*22 August 2013*

# DIRECTORS' REPORT

Your Directors present the annual financial report of the Bega Cheese Group for the year ended 30 June 2013.

## 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

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

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Warranambool Cheese and Butter Factory Company Holdings Limited.

### SPECIAL RESPONSIBILITIES

Chair of the Board and member of Nomination & Human Resources Committee.

## 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, 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

Nil.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

### SPECIAL RESPONSIBILITIES

Nil.

## JOY LINTON

**BComm, Grad Dip AFI, GAICD**
*Independent Director since October 2011.*

### EXPERIENCE AND EXPERTISE

Joy Linton is currently Chief Financial Officer at Bupa Australia and New Zealand, one of Australia's leading healthcare companies. She has 21 years of experience in strategic and financial roles with companies such as Ford Motor Company, Pacific Dunlop Food Group and National Foods Limited. She held the role of CFO of National Foods from 2007 to 2010 and prior to that was General Manager Commercial for the Dairy Foods Group.

### OTHER CURRENT DIRECTORSHIPS

Executive Director of Bupa Australia Holdings Limited.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

### SPECIAL RESPONSIBILITIES

Chair of Audit & Risk 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 Ltd and has had experience at Heinz, Birds Eye Foods and Plumrose.

### OTHER CURRENT DIRECTORSHIPS

Non-executive director of three other public companies: Nufarm Limited (director since 2011), PMP Limited (director since 2012), on the Board of Ricegrowers Limited.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Goodman Fielder Limited.

### SPECIAL RESPONSIBILITIES

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

## JEFF ODGERS

**BBus (Ag Mgt)**

*Director since December 2011.*

### EXPERIENCE AND EXPERTISE

Jeff Odgers has been involved in dairy and water industry roles for the past 13 years, and actively managing farming businesses for over 25 years. Jeff Odgers is a former Chairman of Murray Dairy Inc.

### OTHER CURRENT DIRECTORSHIPS

Nil.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

### SPECIAL RESPONSIBILITIES

Nil.

## RICHARD PARBERY

**FCPA**

*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 and a Justice of the Peace NSW, a registered Self-Managed Superannuation Fund Auditor, 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

Tatura Milk.

### SPECIAL RESPONSIBILITIES

Member of 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 on a number of organisations.

### OTHER CURRENT DIRECTORSHIPS

Nil.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

### SPECIAL RESPONSIBILITIES

Member of Nomination & Human Resources Committee.

## MAX ROBERTS

*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.
Max Roberts was a director of Milk Marketing NSW Pty Ltd, Chairman of NSW Farmers Inc dairy section and Vice President of Australian Dairy Farmers Federation.
Max Roberts is also a member of the Australian Institute of Company Directors.

### OTHER CURRENT DIRECTORSHIPS

Chairman of Dairy Australia Limited.

### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

### SPECIAL RESPONSIBILITIES

Member of Nomination & Human Resources Committee.

# DIRECTORS' REPORT (CONTINUED)

## 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 2013 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:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Interim ordinary dividend for the year ended 30 June 2013 of 3.5 cents | 5,325 | - |
| Final ordinary dividend for the year ended 30 June 2012 of 3.5 cents | 5,315 | - |
| Interim ordinary dividend for the year ended 30 June 2012 of 3.0 cents | - | 4,522 |

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $6,075,000 (4.0 cents per fully paid share) to be paid on 16 September 2013.

## 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 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.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 16 July 2013 the Group announced plans to build a nutritional powder blending and packing facility to support the continued growth of its infant formula business. At the same time the Group announced it had entered into a supply and services agreement with Omniblend Nourish Pty Ltd, which will have access to part of the capacity of the new facility.

Other than this item, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has 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.

## ELECTION 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 SECRETARY

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 28 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 Chartered Secretaries 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 30 years experience. Colin Griffin's primary responsibility is as Chief Financial Officer.

## MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit & Risk Committee and Nominations & Human Resources Committee meetings held during the year ended 30 June 2013 and the number of meetings attended by each eligible Director and other members:

| | Meetings of the Board of Directors | |
|---|---|---|
| | Held and Eligible | Attended |
| Barry Irvin | 18 | 18 |
| Richard Cross | 18 | 17 |
| Joy Linton | 18 | 17 |
| Peter Margin | 18 | 16 |
| Jeff Odgers | 18 | 18 |
| Richard Parbery | 18 | 18 |
| Richard Platts | 18 | 18 |
| Max Roberts | 18 | 16 |

Each Director gave apologies in advance of the meetings they were unable to attend.

| | Meetings of the Audit & Risk Committee | |
|---|---|---|
| | Held and Eligible | Attended |
| Joy Linton | 8 | 8 |
| Peter Margin | 8 | 8 |
| Richard Parbery | 8 | 8 |

| | Meetings of the Nomination & Human Resources Committee | |
|---|---|---|
| | Held and Eligible | Attended |
| Peter Margin | 5 | 5 |
| Barry Irvin | 5 | 5 |
| Richard Platts | 5 | 5 |
| Max Roberts | 5 | 4 |

Max Roberts gave an apology in advance for the meeting he was unable to attend.

## ENVIRONMENTAL REGULATIONS AND SUSTAINABILITY

Bega Cheese Group continued our sustainability journey in FY2013 striving towards fully sustainable manufacturing processes by reducing resource intensity and managing on-farm environmental and carbon impact challenges. Bega Cheese Group is working with other industry stakeholders to develop a strategic framework for the dairy industry which will influence the Group's overall sustainability strategy.

The Group is implementing the energy and carbon management strategy to manage corporate and site programs focussed on reducing the energy intensity of manufacturing facilities and carbon footprint of our products. The Group has developed a number of energy related projects at our manufacturing sites requiring circa $4.0 million of investment and have requested funding under the Clean Technology Investment Program to assist delivering the energy savings.

The Bega Cheese Group on-farm environmental management system (BEMS) has been operating in the Bega region since 2005 and has focussed on minimising sediment and nutrients entering waterways, improving biodiversity and reducing greenhouse gases. BEMS is strongly supported by the Southern Rivers Catchment Management Authority who invested $0.6 million into BEMS on a ground works program this financial year. These funds focus on the enhancement of biodiversity on farm through the planting of substantial shade and shelterbelts and river corridor protection.

# DIRECTORS' REPORT (CONTINUED)

The BEMS program has also been supported by a $0.8 million Caring for Our Country grant that has resulted in the implementation of the BEMS Sustainability Assessment program across 213 farms in NSW and Victoria and the protection of over 63ha of remnant vegetation on dairy farms including 31ha on farms supplying the Tatura factory. A new partnership relationship with the Goulburn Broken Catchment Management Authority has enhanced the delivery of the BEMS program in Northern Victoria.

Energy efficiency has been a major focus this year with 41 farms in the Bega region completing energy efficiency upgrades in the dairy as part of the NSW Energy Efficiency for Small Business program coordinated by Dairy NSW. As a result of the upgrades 365 tonnes of C02e/ year are no longer being produced which is saving the farmers on average $2,000 each per year. In Victoria, 138 farms have completed energy assessments as part of the BEMS program, an initiative that is now offered to all farmers through Dairy Australia.

### Environmental Performance

Bega Cheese Group is subject to federal and state environmental regulations for all sites. Four of the sites are licenced under state environment 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. The Tatura and Coburg sites also operate under trade waste agreements with the local municipal body for disposal of wastewater.

During FY2013 all environment monitoring results for the NSW sites were posted on the Bega Cheese website to comply with EPA requirements. The close proximity of some sites to domestic dwellings resulted in operational activities that caused complaints from our neighbours. In each instance the event was investigated and an appropriate action plan agreed with our neighbours. At the Tatura and Bega sites, community newsletters were produced to inform our neighbours of activities and improvements to address their concerns. There were incidences of non-compliance with agreements with the municipal body or regulators. These incidences caused no significant environment impact and have been resolved or have a plan in place for resolution. In all instances the circumstances, environmental impact and management team response to the incident has resulted in an assessment by the regulator that punitive measures were not warranted.

### Environmental Regulations

The Group is subject to numerous environmental regulations with reporting requirements under the *Energy Efficiency Opportunities Act 2006 (Cth), National Greenhouse and Energy Reporting Act 2007 (Cth)*, the *Protection of the Environment Act 1997 (NSW) as well as the Clean Energy Act 2011 (Cth).*

Bega Cheese Group facilities in Tatura, Strathmerton and Bega all operate under licence from the relevant state Environment Protection Agency (EPA). The Group maintains an open and communicative relationship with various local representatives from the regulators at each site.

The *Energy Efficiency Opportunities Act 2006* ("EEO") requires the Group report on energy saving projects identified in the assessment phase of the program. The Group is developing its second cycle assessment plan. Details of assessments and projects are documented in annual EEO reports and posted on the Group's website.

The *National Greenhouse and Energy Reporting Act 2007* require the Group to measure and report greenhouse gas emissions. The Group has complied with all annual reporting requirements due. Total greenhouse gas emission for FY2013 was similar to FY2012 at 139 KT of CO2 equivalents; however this was with a 2% increase in production indicating a reduction in carbon intensity for the Group in FY2013.

The Group has taken the necessary action to understand the direct and indirect implication of the carbon tax from energy consumption and packaging. The Group has implemented energy saving project in NSW that will generate 1,308 tonnes of CO2 equivalents of savings and attracted $0.2 million of funding under the Clean Technology Investment Program.

Under the *Clean Energy Regulations 2011 (Cth)* Tatura Milk is a liable entity and must directly manage carbon tax related to natural gas use. Tatura Milk incurred a direct carbon tax liability for natural gas of circa $0.9 million.

## REMUNERATION REPORT

### Introduction

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, CEO and other key management personnel of the Group, being the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2013.

## Remuneration Governance

The Nomination and Human Resources Committee (NHRC) operates under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating directors and other key management personnel.

The key responsibilities of the NHRC are to make recommendations to the Board in relation to remuneration principles and procedures for employees and Directors of the Group and provide guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic development.

The NHRC has two broad roles:

1) to assess and make recommendations to Bega Cheese Group 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 Bega Cheese Group:

    a) has coherent human resources policies and practices which enable the Group to attract and retain executives and directors who will create value for shareholders and that support Bega Cheese Group's wider objectives and strategies, and that they are adhered to

    b) fairly and responsibly remunerates directors and executives, having regard to the performance of Bega Cheese Group, the performance of the executives and the general remuneration environment

    c) has effective policies and procedures to attract, motivate and retain appropriately skilled people to meet Bega Cheese Group's needs.

Further details of the NHRC are provided in the Corporate Governance Statement.

## Remuneration Guidelines

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

In setting the remuneration of key management personnel (KMP), inclusive of base remuneration, short term incentive and the long term incentive, the Board takes recommendations from the NHRC. In formulating its recommendations, the NHRC takes into account a range of factors including Group financial performance and 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 key factor in determining the total remuneration for each KMP.

The remuneration recommendations of the NHRC take primary account of the financial performance of the organisation, especially the attainment of budgeted profit. The attainment of budgeted profit is clearly a core factor in the ability of Bega Cheese Group to distribute anticipated dividends and capital growth to shareholders.

Further, executive KMP have a significant amount of their short term incentive directly related to a stretch profit target beyond budgeted profit. This stretch profit target provides the opportunity for executive KMP to derive additional at-risk payments, where the achievement of performance criteria has a direct bearing on the earnings of the organisation and its potential to reward shareholders.

In the case of the CEO's long term incentive, the granting of any performance rights over ordinary shares is linked to total shareholder return, earnings per share and return on funds employed.

The key remuneration guidelines which apply to the Group are summarised below.

## 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 fees, the Board takes into consideration the Group's existing remuneration policies, advice from the General Manager Human Resources, survey data sourced from external specialists, fees paid by comparable companies and the level of remuneration required to attract and retain directors of the appropriate calibre.

The Group pays Chair of 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.

In June 2012 the NHRC received remuneration advice from Godfrey Remuneration Pty Ltd relating to the structure and quantum of fees for the Executive Chairman and

# DIRECTORS' REPORT (CONTINUED)

Non-executive Directors. The Board confirms that the making of the remuneration recommendation was free from undue influence by any of the KMP to whom the recommendation relates. Godfrey Remuneration Pty Ltd were provided with a brief from the Chairman of the NHRC to arrange an independent market review against practices of peer companies. Peer companies were independently selected by Godfrey Remuneration Pty Ltd. The consideration paid for the advice was $11,220.

Following receipt of the recommendation from Godfrey Remuneration Pty Ltd, the NHRC determined that, as from 1 November 2012, the following changes to Directors' remuneration be implemented:

- the Chair of the Audit & Risk Committee receive an increased allowance, rising from $12,000 to $15,000 per annum, reflecting the significant increase in the activities of this Committee and its impact on the business
- Directors who sat on the Audit & Risk Committee and/or NHRC to be entitled to a Committee allowance. The payments were introduced in recognition of the critical activities these Committees undertake and the increasing breadth and complexity of matters which fall within the Charter of these Committees.

The table below summarises the above changes and the current level of all Directors' Fees and Allowances:

| Activity | Annual amount including super<br>Rate prior to 1/11/2012<br>$ | Rate as from 1/11/2012<br>$ |
|---|---|---|
| Chairman of the Board | 175,000 | 175,000 |
| Director fees | 70,000 | 73,500 |
| Chair of Audit & Risk Committee | 12,000 | 15,000 |
| Audit & Risk Committee member allowance | - | 7,500 |
| Chair of NHRC | 12,000 | 12,000 |
| NHRC member allowance | - | 6,000 |

### Remuneration of the Executive Chairman of Bega Cheese Group

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

Consistent with the 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. Further, the existing relativity between the Executive Chairman and Chief Executive Officer should be maintained.

In FY2013 the Board reviewed the remuneration of the Executive Chairman, in conjunction with a recommendation from the NHRC. In making its recommendation, the NHRC took account of the factual market data provided by AON Hewitt. This report collated remuneration data from AON Hewitt's Top Executive Remuneration Report (July 2012) for the Executive Chairman, CEO and Executive General Managers for companies with a similar turnover range and corporate profile as the Group. No recommendations were made within the AON Hewitt report.

### Executive Duties at Bega Cheese Group

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

- a base salary of $334,289, inclusive of superannuation, which 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 and dairy industry organisations
- remuneration earned by the Executive Chairman during the year ended 30 June 2013 from his responsibilities as a Director of each of Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) and Geoffrey Gardiner Dairy Foundation Ltd were specifically deducted from his base salary in accordance with the above principle. The Executive Chairman resigned from the board of WCB in March 2013
- an at-risk short term incentive to a maximum of $102,275 which was subject to achievement of agreed outcomes, as detailed under the summary of the 2013 STI program.

### 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 and was as follows:

| Remuneration type | Annual amount<br>2013<br>$ |
|---|---|
| Chairman of the Board | 160,500 |
| Director fees | - |
| Superannuation | 14,450 |
| **Total Non-executive Director fees and superannuation** | **174,950** |

## Remuneration of the CEO

The remuneration of the CEO of the Group is determined by the Board having regard to independent advice and recommendations received through the NHRC. The CEO's base remuneration was adjusted as from 1 September 2012 through the same benchmarking and recommendation process referred to for the Executive Chairman's remuneration review.

The following principles apply to the remuneration of the CEO:

- an annual remuneration of $720,417 comprising base salary and superannuation
- an at-risk amount of up to $310,500 per annum subject to the achievement of agreed outcomes
- an at-risk long term incentive of specified performance rights subject to the achievement of agreed outcomes. If the performance rights vest, they are converted on a one right to one share basis.

Other key terms of the CEO's service agreement remain unchanged and 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 executive 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. |

## Key Management Personnel

Other KMP, excluding Directors, are selected by the CEO in conjunction with the Executive Chairman and are accountable for planning, directing and controlling the affairs of the Group, and comprised the following people during the whole of FY2013:

| Name | Positions held | Entity |
|---|---|---|
| Barry Irvin | Executive Chairman | Bega Cheese |
| | Executive Chairman | Tatura Milk |
| | Non-executive Deputy Chairman | CCFA |
| Aidan Coleman | Executive Director | Tatura Milk |
| | CEO | Bega Cheese |
| Garth Buttimore | General Manager Operations | Bega Cheese |
| Colin Griffin | Chief Financial Officer | Bega Cheese |
| | Executive Director | Tatura Milk |
| | Non-executive Director | CCFA |
| Paul Van Heerwaarden | General Manager Sales & Marketing | Bega Cheese |
| | Executive Director | Tatura Milk |
| David McKinnon | General Manager Human Resources | Bega Cheese |
| Grattan Smith | General Manager Supply Chain | Bega Cheese |

# DIRECTORS' REPORT (CONTINUED)

### Total Employment Cost

Remuneration of each other KMP is set having regard to the total employment cost (TEC) of that employee to the Group.

### Base Remuneration

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

- a base salary, which is paid monthly. The base remuneration is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- an at-risk component subject to the achievement of agreed outcomes
- superannuation contributions, ranging from 9% to 15% depending on the salary package agreed with each other KMP.

### Remuneration of Other KMP

The total remuneration and remuneration structure of other KMP of Bega Cheese Group is reviewed on an annual basis and any changes are recommended by the NHRC to the Board. Board approval is required to set the remuneration of all 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 of other KMP was adjusted as from 1 September 2012 through the same benchmarking and recommendation process referred to for the Executive Chairman and CEO's remuneration review.

Paul van Heerwaarden, Grattan Smith, 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** | Three months' notice or payment in lieu of such minimum notice.<br>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 individual 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.<br>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.<br>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 remuneration at-risk. The payment of the at-risk component is subject to the actual performance of the individual and the Group against pre-determined financial and non-financial criteria.

The predetermined criteria are reviewed by the Board on an annual basis to ensure they closely align with the specific corporate, leadership and financial objectives the Group. The strategic plan, business and operating plans and annual budgets are the key reference points used in setting the predetermined criteria. The Board approves the predetermined criteria each year for each KMP.

At the end of the financial year the CEO calls for reports from the human resources and finance departments as to actual performance against the predetermined criteria. The CEO also considers the audited annual report and other factors in formulating a recommendation as to the final outcomes for the at-risk component of the remuneration for KMP. A report and recommendation is then submitted to the Board via the NHRC. Board approval is required before the at-risk component of the remuneration for each of the KMP is paid.

### Employee Loyalty Offer

As detailed in the 2012 Annual Report, in August 2011 and May 2012 Bega Cheese issued ordinary shares to eligible employees of both Bega Cheese and Tatura Milk respectively. Shares which were set aside for Colin Griffin and Grattan Smith vested on 20 August 2012, at which time and in accordance with the Incremental Plan Rules (as both KMP had remained employed during the vesting period) the shares were allocated to each KMP as follows:

| KMP | Number of ordinary shares issued |
|---|---:|
| Colin Griffin | 101,760 |
| Grattan Smith | 25,440 |

### Long Term Incentive Plans – Chief Executive Officer

The CEO participates in the Bega Cheese Limited Long Term Incentive Plans (Plans).

The purpose of the Plans are to:

- assist in the reward, retention and motivation of the CEO
- link the reward of the CEO to shareholder value creation
- align the economic interests of the CEO with shareholders by providing an opportunity to be rewarded via an equity interest in the group based on creating shareholder value.

During the year, PricewaterhouseCoopers (PwC) provided advice in respect of the structuring and accounting for the Plans.

The request for this advice was commissioned by the Chair of the NHRC and the final report was delivered directly to the Chair of the NHRC and accordingly the Board was satisfied that the advice was free from any influence. The consideration paid to PwC for this advice was $12,000.

The number of performance rights issued under the Plan was determined by the Board having regard to the underlying base remuneration of the CEO before the benefit of the performance rights, the fair value of the rights issued being in the order of one year's base salary. The Plans give performance rights over ordinary shares in the Group on the terms and conditions as set out in the rules of the Plan.

It is noted that the 2011-2014 Plan included the external measure of total shareholder return targets based on external measures related to share price. The 2012-2015 Plan does not include external measures so as to better align the remuneration outcome to factors within the control of the CEO.

# DIRECTORS' REPORT (CONTINUED)

### Summary of Plans

The CEO currently participates in two Plans, as detailed below:

**LTI Plan 2012 – 2015**

| | |
|---|---|
| **Grant Date:** | 30 October 2012 |
| **Number of Performance Rights offered:** | 703,398<br>Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right is converted into one fully paid ordinary share in the Group. |
| **Exercise price:** | There is no exercise price payable in relation to the exercise of the performance rights. |
| **Vesting Conditions:** | Subject to the leaver provisions referred to below, no performance right granted will vest and be automatically exercised unless the CEO remains employed with the Group during the entire performance period from 1 July 2012 to 30 June 2015. |
| **Performance Hurdles:** | **Earnings Per Share (EPS) Performance Rights**<br>50% of the performance rights granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets. Those EPS growth targets are set out in the table below and apply over the entire performance period. |

| *Vesting percentage* | *EPS growth targets* |
|---|---|
| Nil vesting | below 7.5% compound annual EPS growth over the performance period |
| 50% vesting | at 7.5% compound annual EPS growth over the performance period |
| Pro-rated vesting between 50% and 100% | between 7.5% and 10% compound annual EPS growth over the performance period |
| 100% vesting | at 10% or above compound annual EPS growth over the performance period |

**Return On Funds Employed (ROFE) Performance Rights**

50% of the performance rights granted will be subject to a performance hurdle based on the achievement of certain ROFE targets. Those ROFE targets are set out in the table below and apply over the entire performance period. ROFE is calculated as the Group's earnings before interest and taxation, adjusted for any non-operating items, divided by shareholder's funds plus total interest bearing debt.

| *Vesting percentage* | *ROFE growth targets* |
|---|---|
| Nil vesting | below 14% compound annual growth over the performance period |
| 50% vesting | at 14% compound annual growth over the performance period |
| Pro-rated vesting between 50% and 100% | between 14% and 19% compound annual growth over the performance period |
| 100% vesting | at 19% or above compound annual growth over the performance period |

**LTI Plan 2011 - 2014**

| | |
|---|---|
| **Grant Date:** | 29 June 2012 |
| **Number of Performance Rights offered:** | 714,286<br>Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right is converted into one fully paid ordinary share in the Group. |
| **Exercise price:** | There is no exercise price payable in relation to the exercise of the performance rights. |
| **Vesting Conditions:** | Subject to the leaver provisions referred to below, no performance right granted will vest and be automatically exercised unless the CEO remains employed with the Group during the entire 3 year performance period. |
| **Performance Hurdles:** | **Total Shareholder Return (TSR) Performance Rights**<br>50% of the performance rights granted will be subject to the achievement of the relative* TSR** targets (referred to as TSR performance rights). Those TSR targets are set out in the table below and apply over the entire 3 year period from July 2011. |

| *Vesting percentage* | *TSR targets* |
|---|---|
| Nil vesting | below the 51st percentile |
| 50% vesting | at the 51st percentile |
| Pro-rated vesting between 50% and 100% | between the 51st and 75th percentile |
| 100% vesting | at or above the 75th percentile |

**The relative TSR peer group are companies in the S&P / ASX 300 index, excluding energy, metals and mining, real estate and other financial organisations as at 1 July 2011.*

***The "starting share price" and "closing share price" for TSR purposes is the volume weighted average price of the Group's shares as traded in the 30 day period prior to the start, and end, respectively, of the three year performance period.*

**Earnings Per Share (EPS) Performance Rights**

50% of the performance rights granted will be subject to the achievement of the EPS growth targets (referred to as EPS Performance Rights). Those EPS targets are set out in the table below and apply over the entire 3 year period from 1 July 2011.

| *Vesting percentage* | *EPS growth targets* |
|---|---|
| Nil vesting | below 7.5% compound annual growth over the 3 year period |
| 50% vesting | at 7.5% compound annual growth over the 3 year period |
| Pro-rated vesting between 50% and 100% | between 7.5% and 10% compound annual growth over the 3 year period |
| 100% vesting | at 10% or above compound annual growth over the 3 year period |

**Additional Rules applicable to both LTI Plans**

| | |
|---|---|
| **Dividends and voting rights:** | There are no voting or dividend rights until the performance rights vest and are automatically exercised and then ordinary shares are held in the Group. |
| **Dividend reinvestment:** | Additional performance rights are not granted as a result of holding performance rights when dividends are declared by the Group. |
| **Restrictions on Performance Rights:** | The CEO may not transfer or encumber the performance rights with a security interest without the consent of the Board. |
| **Lapse of Performance Rights:** | Performance rights that have not vested as at the relevant performance measurement date will automatically lapse, unless otherwise determined by the Board.<br>All performance rights will also lapse in other circumstances, including, but not limited to, where the CEO has acted fraudulently or dishonestly in the opinion of the Board. |

# DIRECTORS' REPORT (CONTINUED)

**At-Risk Performance-Based Remuneration 2013 – Remuneration at Risk (2013 RAR)**

### EXECUTIVE CHAIRMAN 2013 RAR

The at-risk key performance indicators (KPIs) for the Executive Chairman were determined by the Board at the commencement of the financial year. Payment of any 2013 RAR was subject to a performance gateway of the group achieving its profit before tax targets. 70% of these KPIs directly align with the executive duties attached to the role of Executive Chairman, including future investment strategies, board effectiveness and government relations.

The Executive Chairman achieved 54.1% of KPIs that align with executive duties. 30% of these KPIs related to Group EBITDA measures. Of the potential 15% allocated to the Group EBITDA target, the Executive Chairman achieved 15%. Of the 15% allocated to the EBITDA stretch target, the Executive Chairman achieved 2.9%.

In total, the Executive Chairman achieved 71.95% of his potential at-risk incentive of $102,275 and forfeited 28.05%.

### OTHER KEY MANAGEMENT PERSONNEL 2013 RAR

The at-risk component for all other KMP for the year ended 30 June 2013 was determined in accordance with the 2013 RAR plan approved by the Board. Under the 2013 RAR plan, qualifying for any part of the at-risk component of the remuneration was subject to a number of conditions precedent, as detailed below.

Group performance gateways, which included group-wide profit, safety, quality and environmental measures, were required to be met before any at-risk payments were authorised. This was important in order to ensure that:

- at-risk payments were aligned to key strategic and business objectives
- no at-risk payments would be made unless the Group achieved or exceeded budgeted profit (having accrued for the payout of the at-risk program in that budget)
- no at-risk payments would be made if the Group achieved or exceeded budgeted profit, but during the year there was a major safety, quality or environmental event which was within the reasonable control of the Group.

Individual gateways also applied to each KMP, related to individual performance and participation in safety, quality and environmental programs. This was important in order to ensure that:

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

If group and individual gateways were both met, then KMP could achieve an at-risk payment based on the achievement of Group EBITDA budget and stretch targets (60%), trade working capital budget and stretch targets (20%), and safety targets (20%).

For the CEO, remuneration at-risk totalled 43% of base salary, whilst for other KMP the remuneration at-risk totalled 30% of their base remuneration, with the following outcomes being achieved:

| KMP | Group gateways | Individual gateways | Budgeted EBITDA 30% | Stretch EBITDA 30% | OH&S criteria 20% | Working capital budget 10% | Working capital stretch 10% | Total % achieved | Total % forfeited | Total fixed rem'n 2013 $ | Outcome $ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Aidan Coleman | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 724,500 | 210,830 |
| Garth Buttimore | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 330,165 | 67,255 |
| Colin Griffin | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 356,904 | 72,701 |
| Paul van Heerwaarden | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 435,035 | 88,616 |
| David McKinnon | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 336,320 | 68,508 |
| Grattan Smith | √ | √ | 30% | 5.9% | 12% | 10% | 10% | 67.9% | 32.1% | 290,039 | 59,081 |

### 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 2011. The key indicators of Group performance and shareholder wealth relevant to remuneration of KMPs which have been extracted from the financial statements are as follows:

| | | FY2013 | FY2012 | FY2011 | Difference to prior year | |
|---|---|---|---|---|---|---|
| | | | | | (Amount) | (%) |
| Profit before tax | $'000 | 35,349 | 27,079 | 22,090 | 8,270 | 31 |
| Profit after tax | $'000 | 25,445 | 20,429 | 21,693 | 5,016 | 25 |
| Dividends per share | Cents | 7.5 | 6.5 | 1.25 | 1.00 | 15 |
| Earnings per share | Cents | 16.76 | 12.81 | 15.65 | 3.95 | 31 |
| KMP total remuneration | $'000 | 4,427 | 4,094 | 2,783 | 333 | 8 |

As shares in Bega Cheese have only been publicly traded since 19 August 2011 and the Group does not publicly disclose forecasts as to future financial performance, the movement in share price is less relevant to the historical remuneration outcomes of the KMP. Total KMP remuneration for FY2013 is in line with prior year, whilst all key performance indicators of Group performance and shareholder wealth have increased. The rate of KMP remuneration compared with historical performance should also be reviewed in the light of the following factors:

- on becoming a public listed company the group strengthened the Board of Directors, increasing the number of Directors from five to eight and introducing two Independent Non-executive Directors. The Board also strengthened corporate governance, particularly through establishing a more focused charter for the Audit & Risk Committee and establishing the NHRC
- acquiring full control of Tatura Milk resulted in a change to the management organisation structure, including the appointment of a number of organisation-wide roles. This resulted in a number of new executives becoming KMP and the remuneration of some existing KMP being reset to reflect organisation-wide responsibilities and current market remuneration factors
- prior to listing employees of Bega Cheese were not entitled to hold shares in the Company. On listing a number of KMP became entitled to ordinary shares under the employee loyalty offer. Shares issued under the offer were largely expensed in FY2012.

# DIRECTORS' REPORT (CONTINUED)

### Remuneration Outcomes

The total remuneration outcome for the KMP for each of the two years ended 30 June was as follows:

| | Year | Short-term employee benefits | | | Post employment benefits | Other long-term employment benefits | | Share based payments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash Salary and fees | Bonus Payments[1] | Non-monetary Benefits[2] | Super-annuation | Long Service Leave[3] | Long-term incentive | Equity settled | All amounts $ |
| **Executive Chairman** | | | | | | | | | |
| Barry Irvin[4] | 2013 | 494,054 | 66,218 | - | 25,000 | 7,013 | - | - | 592,285 |
| | 2012 | 461,394 | 73,580 | - | 42,306 | (1,732) | - | - | 575,548 |
| **Executives** | | | | | | | | | |
| Aidan Coleman[5] | 2013 | 695,417 | 210,830 | - | 25,000 | 19,558 | 188,611 | - | 1,139,416 |
| | 2012 | 632,039 | 115,348 | 32,100 | 47,882 | 38,938 | 180,512 | - | 1,046,819 |
| Garth Buttimore[6] | 2013 | 304,144 | 67,255 | 5,292 | 25,000 | 3,771 | - | - | 405,462 |
| | 2012 | 169,408 | 29,029 | 7,646 | 16,917 | 1,823 | - | - | 224,823 |
| Colin Griffin | 2013 | 324,764 | 72,701 | 6,580 | 25,000 | 7,769 | - | - | 436,814 |
| | 2012 | 309,361 | (2,966) | 26,065 | 23,557 | 8,938 | - | 162,816 | 527,771 |
| Paul van Heerwaarden | 2013 | 407,730 | 88,616 | - | 25,000 | 12,370 | - | - | 533,716 |
| | 2012 | 333,367 | 114,998 | 16,539 | 35,024 | 7,401 | - | 33,600 | 540,929 |
| David McKinnon[7] | 2013 | 310,221 | 68,508 | - | 25,000 | 3,030 | - | - | 406,759 |
| | 2012 | 63,214 | - | 1,416 | 5,689 | 569 | - | - | 70,888 |
| Grattan Smith | 2013 | 248,802 | 59,081 | 19,740 | 25,000 | 9,374 | - | - | 361,997 |
| | 2012 | 205,483 | 5,164 | 14,500 | 35,889 | 21,408 | - | 40,704 | 323,148 |
| Maurice Van Ryn[8] | 2012 | 61,039 | (1,047) | 26,320 | 11,006 | (2,785) | - | 183,168 | 277,701 |
| Total Executive | 2013 | 2,785,132 | 633,209 | 31,612 | 175,000 | 62,885 | 188,611 | - | 3,876,449 |
| Remuneration | 2012 | 2,235,305 | 334,106 | 124,586 | 218,270 | 74,560 | 180,512 | 420,288 | 3,587,627 |
| **Non-executive Directors** | | | | | | | | | |
| Richard Cross[9] | 2013 | 66,361 | - | - | 5,972 | - | - | - | 72,333 |
| | 2012 | 57,922 | - | - | 5,148 | - | - | - | 63,070 |
| Tom D'Arcy[10] | 2012 | 30,335 | - | - | 2,730 | - | - | - | 33,065 |
| Joy Linton[11] | 2013 | 79,205 | - | - | 7,128 | - | - | - | 86,333 |
| | 2012 | 56,482 | - | - | 4,018 | - | - | - | 60,500 |
| Peter Margin[12] | 2013 | 86,438 | - | - | 2,896 | - | - | - | 89,334 |
| | 2012 | 72,973 | - | - | 6,072 | - | - | - | 79,045 |
| Jeff Odgers[9] | 2013 | 66,361 | - | - | 5,972 | - | - | - | 72,333 |
| | 2012 | 45,201 | - | - | 4,049 | - | - | - | 49,250 |
| Richard Parbery | 2013 | 70,948 | - | - | 6,385 | - | - | - | 77,333 |
| | 2012 | 80,700 | - | - | 5,791 | - | - | - | 86,491 |
| Richard Platts | 2013 | 70,031 | - | - | 6,303 | - | - | - | 76,334 |
| | 2012 | 62,071 | - | - | 5,586 | - | - | - | 67,657 |
| Max Roberts | 2013 | 70,031 | - | - | 6,303 | - | - | - | 76,334 |
| | 2012 | 61,718 | - | - | 5,555 | - | - | - | 67,273 |
| Total Non-Executive | 2013 | 509,375 | - | - | 40,959 | - | - | - | 550,334 |
| Remuneration | 2012 | 467,402 | - | - | 38,949 | - | - | - | 506,351 |
| **Total KMP** | 2013 | 3,294,507 | 633,209 | 31,612 | 215,959 | 62,885 | 188,611 | - | 4,426,783 |
| | 2012 | 2,702,707 | 334,106 | 124,586 | 257,219 | 74,560 | 180,512 | 420,288 | 4,093,978 |

*(1) Bonus payments for FY2012 include adjustments made to the final payment of bonus amounts compared with the figure disclosed in the 2011 Annual Report.*

*(2) Includes car allowances and fringe benefit tax allowance.*

*(3) The expense relates to long service leave accrual during the year.*

*(4) Includes remuneration for Non-executive Chairman responsibilities.*

*(5) Long term incentive based on the achievement of specified milestones of the CEO's LTI Plan. The amount reflects the valuation of share rights due to vest in 2014 and 2015.*

*(6) Garth Buttimore joined Bega Cheese Limited on 1 December 2011.*

*(7) David McKinnon joined Bega Cheese Limited on 16 April 2012.*

*(8) Maurice Van Ryn ceased as a KMP from 31 December 2011.*

*(9) Richard Cross and Jeff Odgers both commenced as Directors on 23 December 2011.*

*(10) Tom D'Arcy retired as a Director on 23 December 2011.*

*(11) Joy Linton commenced as a Director on 24 October 2011*

*(12) Peter Margin commenced as a Director on 27 June 2011.*

## 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 Class Order 98/100, 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 Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## AUDITOR

Details of the amounts paid or payable to PwC Australia for audit and non-audit services provided during the financial year are set out in Note 24.

The Board of Directors have considered the position and in accordance with advice from the Audit and 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 and 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

The Directors are satisfied that the provision of non-audit services by PwC Australia, did not compromise the auditor independence requirements of the Corporations Act 2001.

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Melbourne

J Linton

Joy Linton
Independent Director
Melbourne

22 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

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

P.J. Carney

PJ Carney
Partner
PricewaterhouseCoopers

Sydney
22 August 2013

**PricewaterhouseCoopers, ABN 52 780 433 757**
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

# CORPORATE GOVERNANCE STATEMENT

The 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 which it believes are consistent with the continued growth and success of the Group and the ongoing enhancement of value for all Bega Cheese 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.

Copies of all the Group's key policies and practices and the charters for the Board and its committees (each a Board Committee) 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)

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) and the Nomination & Human Resources Committee (NHRC).

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 customers and maintain and enhance the reputation of the Group through active engagement with all key stakeholders.

### MANAGEMENT PERFORMANCE EVALUATION (RECOMMENDATION 1.2)

The performance of the senior executives is reviewed regularly against performance indicators determined by the Board. For further details refer to the Remuneration Report.

### 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 KMP 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.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

### DETAILS OF DIRECTORS (RECOMMENDATIONS 2.1, 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.

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 business.

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

The Board is responsible for the setting of milk price to farmer suppliers. To assist it the Board agreed in May 2012 to establish a Milk Price Working Group, comprising the Executive Chairman, the Chair of the ARC, management and independent experts. The role of this working group is to provide advice to the Board specific to ensuring sustainable ongoing milk supply.

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

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 2.1 and 2.2, the Board does not include a majority of Independent Directors. 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 the Australian dairy industry generally.

Recommendation 2.3 requires that there is a clear division of responsibility between the roles of the Executive Chairman and the CEO. The Group believes that the perspective and expertise that Barry Irvin brings to the strategic development of the Group are essential to its continuing success. For this reason, the overlap in the executive roles of the Executive Chairman and the CEO is appropriate.

Each Director may, in appropriate circumstances and with the approval of the Executive Chairman, seek independent professional advice at the Group's expense.

### NOMINATION AND HUMAN RESOURCES COMMITTEE (RECOMMENDATION 2.4)

The NHRC was formed on 29 August 2011. The NHRC's Charter requires the NHRC to consist of at least three members. Currently, the membership of the NHRC is comprised of one Independent Director (Peter Margin) as chair of the committee and three non-Independent Directors (Barry Irvin, Max Roberts and Richard Platts).

The NHRC meets on at least a six-monthly basis. A quorum consists of three NHRC members. The NHRC may invite any person from time to time to attend meetings of the committee. More detail on the NHRC is given in the Remuneration Report.

### BOARD PERFORMANCE EVALUATION (RECOMMENDATION 2.5)

Under its Charter, the NHRC is responsible for assessment of, and setting processes in relation to, the whole of Board performance review and the individual evaluation of non-executive Directors, as well as of senior management (also see Principle 8 below).

## PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### CODE OF CONDUCT (RECOMMENDATION 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 Bega Cheese Group

b. act in accordance with all applicable laws, regulations, policies and procedures

c. use Bega Cheese Group resources and property properly.

### DIVERSITY POLICY (RECOMMENDATIONS 3.2, 3.3 AND 3.4)

The Group has a diversity and inclusiveness strategy to build a competitive advantage for the Group. The strategy requires a long term commitment 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 focus of the strategy is in the areas of gender, organisational culture, leadership capability and cultural diversity.

At 30 June 2013, the proportion of women employed by the group was as follows:

| | |
|---|---|
| • Board of Directors | 12.5% |
| • Executive Team and all reports | 12% |
| • Bega Cheese Group | 29% |

Bega Cheese Group's diversity strategies and targets over a three to five year time frame include:

a. having a target to increase the representation of women in management positions to 33%

b. having development plans in place for all reports to the Executive team and to have succession plans in place for Executive team roles that have candidates with diverse backgrounds

c. continually reviewing recruitment and selection processes to to encourage diversity and to ensure no inherent process bias

d. establishing diversity awareness programs to create a culture of inclusiveness consistent with the Group's values

e. having formal mentoring programs in place for senior female employees

f. having the level of employee engagement across the business whereby more than 65% of all employees are highly and positively engaged in and committed to the business and its objectives.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### AUDIT & RISK COMMITTEE (RECOMMENDATIONS 4.1, 4.2, 4.3 AND 4.4)

In accordance with Recommendation 4.2, the ARC is comprised of one Independent Director (Joy Linton) as chair of the committee, one Independent Director and one non-Independent Director (Peter Margin and 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 must regularly update the Board on the activities of the committee and bring 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 called as necessary.

The Board is entitled to attend at all meetings. The ARC may invite other persons to attend as required. The quorum of any meeting of the ARC is two members.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

### CONTINUOUS DISCLOSURE POLICY (RECOMMENDATIONS 5.1 AND 5.2)

Bega Cheese Group is committed to observing its disclosure obligations under the Listing Rules and the Corporations Act. 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 SHAREHOLDERS

### 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 ASX and publishing information on www.begacheese.com.au.

In particular, 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 ASX.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

### RISK MANAGEMENT POLICY AND RISK MANAGEMENT COMMITTEE (RECOMMENDATIONS 7.1 AND 7.2)

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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The CEO and Chief Financial Officer have confirmed to the Board that, as at the date of this report, the risk management systems of Bega Cheese Group are sound and are operating effectively in all material respects, including in relation to financial reporting risks.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### NOMINATION & HUMAN RESOURCES COMMITTEE (RECOMMENDATIONS 8.1, 8.2 AND 8.4)

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

The membership and conduct of the NHRC are set out at Principle 2 above. The composition of the NHRC does not comply with Recommendation 8.2 to the extent that it recommends that a remuneration committee consist of a majority of independent non-executive 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 NHRC is appropriate.

### STRUCTURE OF REMUNERATION (RECOMMENDATION 8.3)

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.

# INDEX TO THE FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | CONSOLIDATED 2013 $'000 | CONSOLIDATED 2012 $'000 |
|---|---|---|---|
| Revenue | 5, 34 | 1,010,086 | 932,911 |
| Cost of sales | | (874,961) | (817,545) |
| **Gross profit** | | **135,125** | **115,366** |
| Other income | 5 | 8,660 | 9,141 |
| Distribution expense | | (44,255) | (36,192) |
| Marketing expense | | (9,733) | (6,948) |
| Occupancy expense | | (2,552) | (2,790) |
| Administration expense | | (43,449) | (42,294) |
| Finance costs | 6 | (8,447) | (9,204) |
| **Profit before income tax** | | **35,349** | **27,079** |
| Income tax expense | 7 | (9,904) | (6,650) |
| **Profit for the year** | | **25,445** | **20,429** |
| Other comprehensive (expense)/income: | | | |
| Items that may be reclassified to profit or loss | | | |
| Cash flow hedges | | (2,868) | (1,042) |
| Change in the fair value of other financial assets | | 3,289 | (6,860) |
| **Total other comprehensive income** | | **421** | **(7,902)** |
| **Total comprehensive income for the year** | | **25,866** | **12,527** |
| Profit is attributable to: | | | |
| Equity holders of Bega Cheese Limited | | 25,445 | 17,534 |
| Non-controlling interests | | - | 2,895 |
| | | 25,445 | 20,429 |
| Total comprehensive income for the year is attributable to: | | | |
| Equity holders of Bega Cheese Limited | | 25,866 | 9,794 |
| Non-controlling interests | | - | 2,733 |
| | | 25,866 | 12,527 |

| | Notes | 2013 Cents | 2012 Cents |
|---|---|---|---|
| **Earnings per share for profit attributable to ordinary equity holders of the parent:** | 31 | | |
| Basic earnings per share | | 16.76 | 12.81 |
| Diluted earnings per share | | 16.68 | 12.77 |

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

# CONSOLIDATED BALANCE SHEET

| | Notes | CONSOLIDATED 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 30 | 24,235 | 6,053 |
| Trade and other receivables | 8 | 104,303 | 95,767 |
| Derivative financial instruments | 9 | - | 318 |
| Inventories | 10 | 163,277 | 162,669 |
| Total current assets | | 291,815 | 264,807 |
| **Non-current assets** | | | |
| Other financial assets | 11 | 39,028 | 30,903 |
| Property, plant and equipment | 12 | 209,892 | 204,596 |
| Deferred tax assets | 7d | 9,157 | 14,070 |
| Intangible assets | 13 | 1,580 | 1,580 |
| Total non-current assets | | 259,657 | 251,149 |
| Total assets | | 551,472 | 515,956 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 144,940 | 130,450 |
| Borrowings | 15 | 601 | 12,816 |
| Derivative financial instruments | 16 | 7,191 | 419 |
| Current tax liabilities | | 1,397 | 161 |
| Provisions | 17 | 22,893 | 21,464 |
| Total current liabilities | | 177,022 | 165,310 |
| **Non-current liabilities** | | | |
| Derivative financial instruments | 18 | - | 7 |
| Borrowings | 19 | 110,300 | 102,013 |
| Provisions | 20 | 2,198 | 2,186 |
| Total non-current liabilities | | 112,498 | 104,206 |
| Total liabilities | | 289,520 | 269,516 |
| Net assets | | 261,952 | 246,440 |
| **EQUITY** | | | |
| Contributed equity | 21a | 101,902 | 101,279 |
| Reserves | 22 | 25,585 | 25,515 |
| Retained earnings | | 134,465 | 119,646 |
| Capital and reserves attributable to owners of Bega Cheese Limited | | 261,952 | 246,440 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Consolidated | Contributed Equity $'000 | Share Based Payment Reserve $'000 | Capital Profits Reserve $'000 | Hedging Reserve $'000 | Fair Value Reserve $'000 | Transactions with non-controlling Interests $'000 | Retained Earnings $'000 | Non-controlling Interests $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 July 2011 | 27,169 | 1,090 | 33,959 | 534 | 10,474 | - | 106,633 | 25,616 | 205,475 |
| **Profit for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **17,534** | **2,895** | **20,429** |
| **Other comprehensive income for the year** | **-** | **-** | **-** | **(892)** | **(6,848)** | **-** | **-** | **(162)** | **(7,902)** |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Contributions of equity net of transaction costs | 33,989 | - | - | - | - | - | - | - | 33,989 |
| Buy-back of shares | - | - | - | - | - | - | - | (58) | (58) |
| Issue of shares under employee share scheme (note 32) | 1,548 | (1,065) | - | - | - | - | - | - | 483 |
| Employee share scheme costs | - | 649 | - | - | - | - | - | - | 649 |
| Share based payments relating to incentives | - | 181 | - | - | - | - | - | - | 181 |
| Dividends provided for or paid | - | - | - | - | - | - | (4,521) | - | (4,521) |
| Transactions with non-controlling interest | - | - | - | - | - | - | - | (1,227) | (1,227) |
| Acquisition of non-controlling interest in Tatura Milk - net of transaction costs (note 28) | 38,573 | - | - | - | - | (12,567) | - | (27,064) | (1,058) |
| **Balance as at 30 June 2012** | **101,279** | **855** | **33,959** | **(358)** | **3,626** | **(12,567)** | **119,646** | **-** | **246,440** |
| Balance as at 1 July 2012 | 101,279 | 855 | 33,959 | (358) | 3,626 | (12,567) | 119,646 | - | 246,440 |
| **Profit for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **25,445** | **-** | **25,445** |
| **Other comprehensive income for the year** | **-** | **-** | **-** | **(2,868)** | **3,289** | **-** | **-** | **-** | **421** |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Issue of shares under employee share scheme (note 32) | 612 | (612) | - | - | - | - | - | - | - |
| Employee share scheme costs (note 32) | - | 86 | - | - | - | - | - | - | 86 |
| Share based payments relating to incentives | - | 189 | - | - | - | - | - | - | 189 |
| Shares issued under Dividend Reinvestment Plan (note 21) | 11 | - | - | - | - | - | - | - | 11 |
| Dividends provided for or paid | - | - | - | - | - | - | (10,640) | - | (10,640) |
| Other movements | - | - | - | - | (14) | - | 14 | - | - |
| **Balance as at 30 June 2013** | **101,902** | **518** | **33,959** | **(3,226)** | **6,901** | **(12,567)** | **134,465** | **-** | **261,952** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | CONSOLIDATED 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers inclusive of goods and services tax | | 1,040,955 | 945,638 |
| Payments to suppliers and employees inclusive of goods and services tax | | (966,921) | (944,365) |
| Interest and other costs of financing paid | | (8,115) | (8,772) |
| Income taxes paid | | (3,933) | (3,040) |
| Net cash inflow/(outflow) from operating activities | 30 | 61,986 | (10,539) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 224 | 388 |
| Dividends received | | 1,000 | 1,250 |
| Payments for property, plant and equipment | 12 | (27,810) | (27,569) |
| Payments for shares in listed companies | | (3,455) | (3,813) |
| Expenses on merger with Tatura Milk | | - | (570) |
| Proceeds from sale of property, plant and equipment | | 770 | 80 |
| Proceeds from sale of shares in unlisted companies | | 14 | 114 |
| Net cash (outflow) from investing activities | | (29,257) | (30,120) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 86,612 | 38,213 |
| Repayment of borrowings | | (87,413) | (42,078) |
| Repayment of leases | | - | (827) |
| Share capital subscribed by members | | - | 35,000 |
| Expenses incurred in capital raising | | - | (2,324) |
| Share capital purchased back from non-controlling interests | | - | (58) |
| Dividends paid to members | | (10,619) | (3,701) |
| Dividends paid to non-controlling interests | | - | (1,227) |
| Net cash (outflow)/inflow from financing activities | | (11,420) | 22,998 |
| Net increase/(decrease) in cash and cash equivalents | | 21,309 | (17,661) |
| Cash and cash equivalents at the beginning of the year | | 2,926 | 20,587 |
| Cash and cash equivalents at the end of the year | 30 | 24,235 | 2,926 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bega Cheese and its subsidiaries. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 22 August 2013. 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, and the Corporations Act 2001. Bega Cheese is a for-profit entity for the purpose of preparing the financial statements.

#### 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

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

#### Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, 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 3.

### b. Principles of Consolidation

#### Joint venture

The proportionate interests in the assets, liabilities and expenses of joint venture activity have been incorporated in the financial statements under the appropriate headings. Details relating to the joint venture are set out in note 28.

Profits or losses on transactions establishing the joint venture and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

#### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2013 and the results of all subsidiaries for the year then ended. Bega Cheese and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1i.).

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Balance Sheet respectively.

## 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, has been identified as the Board of Directors.

## d. Foreign Currency Translation

### Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is Bega Cheese'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 is recognised in the reporting period in which the services are rendered.

### Royalties

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

### Rental Revenue

Rental revenue is recognised on an accrual basis in accordance with the substance of relevant rental agreements.

### 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 income 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 included in non-current liabilities as deferred income 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 for each jurisdiction 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 in the countries where the company's subsidiaries and associates operate and generate taxable income.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Current and deferred tax 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 of property, plant and equipment where the Group, as lessee, has substantially, all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The Group had no outstanding finance lease liabilities at 30 June 2013.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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 26). 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

### 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. If those amounts are less than the fair value of the net identifiable assets of subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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 to sell 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 which 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, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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 which 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 (more than 30 days overdue) 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 expenses'. 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 expenses 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. 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.

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.

## n. Investments and Other Financial Assets

### Classification

The Group classifies its investments in the following categories: loans and receivables, held to maturity investments 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 and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

#### Loans and receivables

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 which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 8) in the balance sheet.

#### Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payment and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

#### 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 2. Gains and losses arising from changes in fair value are recognised through other comprehensive income with the exception of impairment losses which 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.

### Recognition and Derecognition

Regular purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

### Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets 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 financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

i. assets carried at amortised cost

   For loans and receivables, 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 financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

   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.

ii. assets classified as available-for-sale

   If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

   Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

## o. Derivatives and Hedging Activities

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 depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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.

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 2. Movements in the hedging reserve in shareholders' equity are shown in note 22. 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; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified 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 other expenses.

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 asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised through comprehensive income within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other 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 transfers from equity of 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 (note 1j.).

Gains and losses on disposals are determined by comparing proceeds with 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 13.

### Water Rights

Water Rights are valued at cost less impairment losses, which is reviewed at least annually. The asset is tested for impairment in accordance with the policy stated in note 13.

## 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 which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## s. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

## t. Borrowing Costs

Borrowing costs are expensed as incurred.

## u. 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.

## v. Employee Benefits

### Short Term Obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave 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 annual leave and accumulating sick 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 national government 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.

### 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

During the year, Bega Cheese provided for share-based compensation benefits to be paid under the Bega Cheese and Tatura Milk employee share scheme plans. Information relating to these schemes is set out in note 32. The fair value of shares granted under the Bega Cheese employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted.

The fair value of rights granted under the Bega Cheese share schemes 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, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance conditions.

Non-market vesting conditions are included in assumptions about the number of options 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 options 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 provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## w. 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.

## x. 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.

## y. 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.

## z. Research and Development Costs

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

## aa. 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.

## ab. Rounding of Amounts

The Company is of a kind referred to in Class order 98/100, 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 Class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### ac. New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 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, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective for annual reporting periods beginning on or after 1 January 2015).

   AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group has not yet decided when to adopt AASB 9 and is currently assessing the impact of the changes.

ii. AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).

   In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

   AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements and Interpretation 12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its composition.

   AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

   Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. This standard will impact the Group's accounting treatment for the CCFA joint venture which is currently proportionately accounted for. The Group's investment in joint venture partnerships will continue to be classified as joint ventures under the new rules. The equity method of accounting will be applied from 1 July 2013. The changes to the Consolidated Statement of Comprehensive Income will not effect comprehensive income and will remove the impact of CCFA from individual line items and present the CCFA result on a separate line item as the share of net profit. The changes to the Consolidated Balance Sheet will be to remove the impact of CCFA from individual line items and present balances with CCFA as a separate receivable within Trade and Other Receivables. There will be no impact to net assets.

   AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

   AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

   Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group will not be affected by this amendment.

   The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

iii. AASB 13 Fair Value Measurement and AASB 2011-8 amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013).

   AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

iv. AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013).

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 related party disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

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

## ad. Parent Entity Financial Information

The financial information for the parent entity, Bega Cheese, disclosed in note 33 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 are included in Bega Cheese's income statement. In the Group consolidated financial statements, these are eliminated, along with other intercompany transactions.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2. 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. The Group's overall risk management program 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 and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. 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.

Risk 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. The treasury officers identify, evaluate and hedge financial risks in close co-operation with the Group's operating units, by applying principles provided by the Board which 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 interest rate swaps to hedge the fair value risk associated with fluctuating interest rates.

#### 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 functional currency. The Group exports dairy products and is exposed to foreign exchange risk, primarily movements in exchange rates of US Dollar and Japanese Yen. 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 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. The Group's exposure to foreign exchange risk at the end of the reporting period, expressed in Australian Dollars, was as follows:

| | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|
| | **USD 2013** '000 | **JPY 2013** '000 | **EUR 2013** '000 | **USD 2012** '000 | **JPY 2012** '000 | **EUR 2012** '000 |
| **Trade Receivables** | **21,368** | **-** | **-** | **14,624** | **-** | **-** |
| **Trade Payables** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Forward Exchange Contracts** | | | | | | |
| Buy foreign currency (fair value hedges) | - | - | 333 | 4,479 | - | 239 |
| Sell foreign currency (cashflow hedges) | 59,845 | 1,797 | - | 36,110 | 3,248 | - |
| Sell foreign currency (fair value hedges) | 15,904 | - | - | 18,156 | - | - |

### Group Sensitivity

This is based on the financial instruments held on 30 June 2013, had the Australian dollar weakened or strengthened by 10% against the US Dollar, the Euro and Japanese Yen, with all other variables held constant. The analysis is performed on the same basis for 2012 and has no impact on profit after tax due to the nature and accounting treatment of the instruments held. The Group sensitivity is detailed in the following table.

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **EQUITY** | | |
| AUD$ strengthens 10% - increase / (decrease) | (4,320) | (2,511) |
| AUD$ weakens 10% - increase / (decrease) | 5,280 | 2,941 |

### 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 fixed rate interest swaps to manage interest rate risk. Due to the changed facility agreements in June 2013, the use of interest rate swaps is currently under review by the Group. All borrowings were denominated in Australian dollars during 2013 and 2012.

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

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **LIABILITIES** | | |
| **Fixed Rate Instruments** | | |
| Bank overdrafts and loans | 601 | 289 |
| **Variable Rate Instruments** | | |
| Bank overdrafts and loans | 110,300 | 114,540 |
| Interest rate swaps (notional principal amount) | - | (28,100) |
| **Net exposure on liabilities to interest risk** | 110,901 | 86,729 |
| **ASSETS** | | |
| Fixed Rate Instruments | 2,278 | 1,317 |
| Variable Rate Instruments | 24,235 | 6,053 |

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

The Group analyses its interest rate exposure using various scenarios to simulate factors such as refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Based on the various scenarios, the Group has previously managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the differences between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

### Group Sensitivity

At 30 June 2013, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been $776,000 (2012: $607,000) higher or lower for the Group's net profit.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### a. Market Risk (cont.)

**Price Risk**

The Group is exposed to equity securities price risk. This arises 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. The table below summarises the impact of increases/decreases of the price of the securities on the Group's equity. The analysis is based on the number of shares held in WCB and the closing price at year end, net of tax.

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **EQUITY** | | |
| Share price increases by 10% - increase / (decrease) | 2,732 | 2,162 |
| Share price decreases by 10% - increase / (decrease) | (2,732) | (2,162) |

### 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 which can be called upon if the counterparty is in default under the terms of the agreement. In addition, the company obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Cash and cash equivalents | 24,235 | 6,053 |
| Trade receivables | 94,557 | 84,942 |
| Accrued revenue | 1,805 | 1,409 |
| Other receivables | 4,336 | 6,991 |
| Advances for vat loans | 600 | 288 |
| Advances to suppliers | 1,678 | 1,029 |
| Fair value derivatives | - | 318 |
| **Total** | **127,211** | **101,030** |

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 credit quality of financial assets that are neither past due nor impaired can be assessed by reference to amounts past due at the reporting date, as shown in the following table:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Not past due | 80,453 | 72,529 |
| Past due over 0-30 days | 9,082 | 9,449 |
| Past due over 30 days | 5,022 | 2,964 |
| **Trade receivables at 30 June** | **94,557** | **84,942** |

For details of provisions held against trade receivables, see note 8. All impaired balances are more than 60 days overdue.

## 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 | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Undrawn facilities expiring beyond one year | 87,099 | 85,371 |
| Drawn facilities | 110,901 | 114,829 |
| **Total facilities** | **198,000** | **200,200** |
| | | |
| Total facilities are represented by: | | |
| Syndicated Facility - 3.5 year Revolving Cash Advance Facility | 80,000 | - |
| Syndicated Facility - 5 year Revolving Cash Advance Facility | 60,000 | - |
| Revolving Working Capital Facility | - | 40,000 |
| Term Loan | - | 67,500 |
| Inventory Facility | 50,000 | 50,000 |
| Other Facilities | 8,000 | 42,700 |
| **Total facilities** | **198,000** | **200,200** |

During the current year, the Group established a syndicated facility structure. The syndicate includes the following two financial institutions; Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Australia Branch) and Westpac Banking Corporation. The Syndicated Facility Agreement was executed on 15 November 2012 and included the establishment of a $80m Revolving Working Capital Facility. On 24 June 2013, this was updated by an amendment to the Syndicated Facility Agreement to give a more flexible borrowings structure over an extended maturity. The current agreement includes a 3.5 Year Revolving Cash Advance Facility of $80m due to expire on 31 January 2017. In addition, a 5 Year Revolving Cash Advance Facility of $60m was established, which is due to expire on 31 July 2018. The Syndicated Facilities 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 Facilities, Bega Cheese and Tatura Milk continue to operate three separate banking facilities, included above in the Inventory Facility and Other Facilities which consist of a Tatura Milk Overdraft Facility and the Vat Financing Facility. All these facilities were extended on 20 June 2013 until 1 July 2014 except for the Vat Financing Facility which is a revolving facility of $1.5m. The Other Facilities are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 29.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## c. Liquidity Risk (cont.)

### Maturities of Financial Liabilities

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

| | 0-12 months | 1-2 years | 2-5 years | >5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated At 30 June 2013** | | | | | | |
| **Consolidated** | | | | | | |
| **Non Derivatives** | | | | | | |
| Secured bank loans | (5,266) | (27,907) | (60,513) | (35,186) | (128,872) | (110,901) |
| Trade and other payables | (144,940) | - | - | - | (144,940) | (144,940) |
| **Derivatives** | | | | | | |
| Financial liabilities | | | | | | |
| Inflows | 77,879 | - | - | - | 77,879 | 61,756 |
| Outflows | (84,847) | - | - | - | (84,847) | (67,443) |
| **Total** | **(157,174)** | **(27,907)** | **(60,513)** | **(35,186)** | **(280,780)** | **(261,528)** |
| **Consolidated At 30 June 2012** | | | | | | |
| **Consolidated** | | | | | | |
| **Non Derivatives** | | | | | | |
| Secured bank loans | (18,059) | (105,287) | - | - | (123,346) | (114,829) |
| Trade and other payables | (130,450) | - | - | - | (130,450) | (130,450) |
| **Derivatives** | | | | | | |
| Financial liabilities | (248) | - | - | - | (248) | (369) |
| Inflows | 61,178 | 1,054 | - | - | 62,232 | 39,416 |
| Outflows | (60,351) | (998) | - | - | (61,349) | (39,156) |
| **Total** | **(147,930)** | **(105,231)** | **-** | **-** | **(253,161)** | **(245,388)** |

## 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 fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. 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 interest rate swaps is calculated as the present value of the estimated future cash flows. 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 of 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 date (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.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | |
| **Period Ending 30 June 2013** | | | | |
| Assets | | | | |
| Financial assets at fair value through equity | 39,028 | - | - | 39,028 |
| **Total assets** | **39,028** | **-** | **-** | **39,028** |
| Liabilities | | | | |
| Derivatives used for hedging | - | (7,191) | - | (7,191) |
| **Total liabilities** | **-** | **(7,191)** | **-** | **(7,191)** |
| **Period Ending 30 June 2012** | | | | |
| Assets | | | | |
| Financial assets at fair value through equity | 30,879 | - | 24 | 30,903 |
| Derivatives used for hedging | - | 318 | - | 318 |
| **Total assets** | **30,879** | **318** | **24** | **31,221** |
| Liabilities | | | | |
| Derivatives used for hedging | - | (426) | - | (426) |
| **Total liabilities** | **-** | **(426)** | **-** | **(426)** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3. 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 - deferred tax assets, note 8 – trade and other receivables, note 10 – inventories and note 14 – trade and other payables.

## 4. SEGMENT INFORMATION

### a. Description of Segments

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

i. Bega Cheese – which manufactures natural cheese, processed cheese, powders and butter and packages 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 2013 is as follows:

| **Total sales revenue by segment** | **Bega Cheese** $'000 | **Tatura Milk** $'000 | **Group Eliminations** $'000 | **Group Total** $'000 |
|---|---|---|---|---|
| **Period Ending 30 June 2013** | | | | |
| Total sales revenue by segment | 690,259 | 335,516 | - | 1,025,775 |
| Intersegment revenues | (9,787) | (5,902) | - | (15,689) |
| Revenues from external customers | 680,472 | 329,614 | - | 1,010,086 |
| EBITDA | 37,123 | 27,146 | - | 64,269 |
| Interest revenue | 194 | 118 | - | 312 |
| Interest expense | (7,238) | (1,209) | - | (8,447) |
| Depreciation and amortisation | (12,419) | (8,366) | - | (20,785) |
| **Profit before income tax** | **17,660** | **17,689** | **-** | **35,349** |
| Income tax expense | (5,059) | (4,845) | - | (9,904) |
| **Profit after tax** | **12,601** | **12,844** | **-** | **25,445** |
| Total segment assets | 420,830 | 210,237 | (79,595) | 551,472 |
| Total segment liabilities | 208,874 | 83,380 | (2,734) | 289,520 |
| Purchases of property, plant and equipment | 11,307 | 16,503 | - | 27,810 |

| Total sales revenue by segment | Bega Cheese $'000 | Tatura Milk $'000 | Group Eliminations $'000 | Group Total $'000 |
|---|---|---|---|---|
| **Period Ending 30 June 2012** | | | | |
| Total sales revenue by segment | 613,983 | 334,091 | - | 948,074 |
| Intersegment revenues | (4,634) | (10,529) | - | (15,163) |
| Revenues from external customers | 609,349 | 323,562 | - | 932,911 |
| EBITDA | 26,794 | 29,409 | 570 | 56,773 |
| Interest revenue | 238 | 190 | - | 428 |
| Interest expense | (7,520) | (1,684) | - | (9,204) |
| Depreciation and amortisation | (13,322) | (7,596) | - | (20,918) |
| **Profit before income tax** | **6,190** | **20,319** | **570** | **27,079** |
| Income tax expense | (1,259) | (5,391) | - | (6,650) |
| **Profit after tax** | **4,931** | **14,928** | **570** | **20,429** |
| Total segment assets | 418,666 | 176,643 | (79,353) | 515,956 |
| Total segment liabilities | 212,501 | 59,506 | (2,491) | 269,516 |
| Purchases of property, plant and equipment | 8,638 | 18,931 | - | 27,569 |
| Other material items - IPO related expenses (before tax) | 320 | - | - | 320 |

## 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 | |
|---|---|---|
| | **2013** $'000 | **2012** $'000 |
| **Sales to External Customers in Australia** | | |
| Bega Cheese | 592,036 | 530,702 |
| Tatura Milk | 119,838 | 111,951 |
| Total sales to external customers in Australia | 711,874 | 642,653 |
| **Sales to External Customers in Other Countries** | | |
| Bega Cheese | 88,436 | 78,647 |
| Tatura Milk | 209,776 | 211,611 |
| Total sales to external customers in other countries | 298,212 | 290,258 |
| **Total sales to external customers** | **1,010,086** | **932,911** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### c. Other Segment Information (cont.)

Revenues of approximately $493,325,000 (2012: $443,375,000) are concentrated in a small number of external customers. These revenues are attributable to the Bega Cheese segment.

Segment sales by product are as follows:

| | Bega Cheese $'000 | Tatura Milk $'000 | Group Eliminations $'000 | Group Total $'000 |
|---|---|---|---|---|
| **Period Ending 30 June 2013** | | | | |
| Core manufacturing | 82,631 | 229,149 | (15,689) | 296,091 |
| Fast moving consumer goods | 607,628 | - | - | 607,628 |
| Nutritionals | - | 106,367 | - | 106,367 |
| **Sales by product** | **690,259** | **335,516** | **(15,689)** | **1,010,086** |
| **Period Ending 30 June 2012** | | | | |
| Core manufacturing | 86,248 | 238,158 | (15,163) | 309,243 |
| Fast moving consumer goods | 527,735 | - | - | 527,735 |
| Nutritionals | - | 95,933 | - | 95,933 |
| **Sales by product** | **613,983** | **334,091** | **(15,163)** | **932,911** |

ii. EBITDA

The Board of Directors assess the performance of the operating segments based on a measure of EBITDA. In FY2012, the eliminations related to costs of issuing equity in Bega Cheese to former Tatura Milk shareholders.

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 the asset. 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.

## 5. REVENUE

Revenue from continuing operations consisted of the following items:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Sales of Goods | 997,556 | 922,207 |
| Services | 12,530 | 10,704 |
| **Total revenue** | **1,010,086** | **932,911** |
| | | |
| **Other Income** | | |
| Interest revenue | 312 | 428 |
| Royalties | 5,232 | 5,417 |
| Rental revenue | 720 | 729 |
| Dividends | 1,000 | 1,250 |
| Other | 1,396 | 1,317 |
| **Total other income** | **8,660** | **9,141** |
| **Total** | **1,018,746** | **942,052** |

Service revenue has been separately classified in the financial statements. Further information is set out in note 34.

## 6. EXPENSES

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Profit/(Loss) on disposal of property, plant and equipment | 25 | (100) |
| Operating lease minimum lease payments | 722 | 533 |
| Increase in inventory provisions | 2,240 | 2,020 |
| Increase/(Write back) of bad and doubtful debts | 2 | (20) |
| Depreciation of non-current assets | 20,785 | 20,710 |
| Impairment of tangible assets | 983 | - |
| Impairment of intangible assets | - | 208 |
| | | |
| Employee benefit expense: | | |
| Defined contribution superannuation expense | 9,731 | 9,831 |
| Other employee benefits expense | 126,704 | 114,310 |
| **Total employee benefit expense** | **136,435** | **124,141** |
| | | |
| Finance costs: | | |
| Interest on bank loans | 8,076 | 8,750 |
| Interest on obligations under finance leases | - | 22 |
| Other finance costs | 371 | 432 |
| **Total finance costs** | **8,447** | **9,204** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7. INCOME TAX

| | CONSOLIDATED 2013 $'000 | CONSOLIDATED 2012 $'000 |
|---|---|---|
| **a. Income Tax Expense** | | |
| Current tax charge | (10,298) | (8,207) |
| Deferred tax benefit from the origination and reversal of temporary differences | 206 | 980 |
| Adjustments recognised in the current year in relation to current tax of prior years | 188 | 577 |
| **Total income tax expense** | **(9,904)** | **(6,650)** |
| **b. Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable** | | |
| Profit from continuing operations before income tax | 35,349 | 27,079 |
| Tax expense at the Australian tax rate of 30% (2012-30%) | (10,605) | (8,124) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-assessable income | 431 | 568 |
| Non-deductible expenses | (458) | (235) |
| Other assessable income | (128) | (161) |
| | (155) | 172 |
| Tax incentives | 615 | 700 |
| Other deductible expenses | 53 | 25 |
| Adjustments in respect of prior year | 188 | 577 |
| **Total income tax expense** | **(9,904)** | **(6,650)** |

The adjustments in respect of prior year relate to the finalisation of the claim for the research and development tax concession.

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous period.

| | CONSOLIDATED 2013 $'000 | CONSOLIDATED 2012 $'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 | (1,408) | 2,923 |
| Share issue costs charged to equity | - | 994 |
| Movement in hedging reserve | 1,229 | 447 |
| **Total amount recognised through other comprehensive income** | **(179)** | **4,364** |

## d. Movements in Deferred Tax

Movements in deferred tax in the year are detailed below:

| | Opening balance $'000 | Charged to income $'000 | Charged to equity $'000 | Closing balance $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Period Ending 30 June 2013** | | | | |
| *Deferred tax assets* | | | | |
| Borrowing costs | 71 | (53) | - | 18 |
| Doubtful debts | 6 | (2) | - | 4 |
| Inventory | 2,453 | (402) | - | 2,051 |
| Sundry accrued expenses | 1,585 | 118 | - | 1,703 |
| Employee provisions | 7,126 | 481 | - | 7,607 |
| Share issue costs | 851 | (272) | - | 579 |
| Tax losses brought to account | 4,956 | (4,956) | - | - |
| Total deferred tax assets | 17,048 | (5,086) | - | 11,962 |
| *Deferred tax (liabilities)* | | | | |
| Fair value investment | (1,178) | - | (1,408) | (2,586) |
| Property, plant and equipment | (1,797) | 336 | - | (1,461) |
| Fair value of derivatives | (3) | 16 | 1,229 | 1,242 |
| Total deferred tax (liabilities) | (2,978) | 352 | (179) | (2,805) |
| **Total deferred tax** | **14,070** | **(4,734)** | **(179)** | **9,157** |
| **Period Ending 30 June 2012** | | | | |
| *Deferred tax assets* | | | | |
| Borrowing costs | 67 | 4 | - | 71 |
| Doubtful debts | 10 | (4) | - | 6 |
| Inventory | 1,430 | 1,023 | - | 2,453 |
| Sundry accrued expenses | 2,776 | (1,191) | - | 1,585 |
| Employee provisions | 6,222 | 904 | - | 7,126 |
| Leased assets | 40 | (40) | - | - |
| Employee share scheme | 165 | (165) | - | - |
| Share issue costs | - | (143) | 994 | 851 |
| Tax losses brought to account | 10,628 | (5,672) | - | 4,956 |
| Total deferred tax assets | 21,338 | (5,284) | 994 | 17,048 |
| *Deferred tax (liabilities)* | | | | |
| Fair value investment | (4,101) | - | 2,923 | (1,178) |
| Property, plant and equipment | (2,390) | 593 | - | (1,797) |
| Fair value of derivatives | (447) | (3) | 447 | (3) |
| Total deferred tax (liabilities) | (6,938) | 590 | 3,370 | (2,978) |
| **Total deferred tax** | **14,400** | **(4,694)** | **4,364** | **14,070** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Included in deferred tax assets are tax losses brought to account. Judgement has been applied in assessing the recoverability of these amounts which are governed by taxation rules set by the Australian Tax Office.

The recognition of tax losses as a deferred tax asset requires critical judgement in assessing the likelihood and extent of future utilisation.

## 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Trade receivables | 94,575 | 84,958 |
| Allowance for impairment of receivables | (18) | (16) |
| | 94,557 | 84,942 |
| Goods and services tax (GST) receivable | 4,238 | 6,869 |
| Prepayments | 1,327 | 1,108 |
| Accrued revenue | 1,805 | 1,409 |
| Other debtors | 98 | 122 |
| Advances for vat loans | 600 | 288 |
| Advances to suppliers | 1,678 | 1,029 |
| **Total** | **104,303** | **95,767** |

The average credit period for trade debtors is 30 days. No interest is generally charged on overdue debts. An allowance has been made for estimated unrecoverable amounts from a review of debtors outside their trading terms.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 6% (2012: 8%). Advances to suppliers are interest bearing loans to assist with short term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 8% (2012: 9%).

Judgement is used in assessing trade receivables due from customers under product supply contracts which require a periodic reconciliation to specific terms of those contracts.

## 9. CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| At fair value: | | |
| Fair value of derivatives | - | 318 |
| **Total** | **-** | **318** |

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. CURRENT ASSETS – INVENTORIES

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Raw materials and stores at cost | 111,351 | 106,080 |
| Finished goods at the lower of cost and net realisable value | 51,926 | 56,589 |
| **Carrying amount of inventories at lower of cost or net realisable value** | **163,277** | **162,669** |

The write-down of inventories to net realisable value requires critical judgement in assessing future commodity prices and provision for quality.

## 11. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Available for sale financial assets | | |
| Listed equity securities | 39,028 | 30,879 |
| Unlisted equity securities | - | 24 |
| **Total** | **39,028** | **30,903** |

The consolidated entity's exposure to credit, currency and interest rate risks related to investments is disclosed in note 2. Listed equity securities includes Bega Cheese's investment in WCB. In 2013, Bega Cheese's investment was increased, through the purchase of additional shares costing $3,455,000 (2012: $3,813,000) including dividend re-investment of $1,000,000 (2012: $1,249,000). Unlisted securities are traded in inactive markets and includes the 25% investment in the holding company of the joint venture, CCFA of $2. Further details on CCFA are contained in note 28. During the year, unlisted securities of $24,000 were disposed of (2012: $177,000). Refer to note 2 for further information about the methods used and assumptions applied in determining fair value.

## 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Land and buildings | | |
| At cost | 93,811 | 87,985 |
| Accumulated depreciation | (27,267) | (24,472) |
| **Total land and buildings** | **66,544** | **63,513** |
| | | |
| Plant and equipment | | |
| At cost | 345,882 | 328,831 |
| Accumulated depreciation | (216,402) | (200,452) |
| **Total plant and equipment** | **129,480** | **128,379** |
| | | |
| Leased assets | | |
| At cost | 4,856 | 4,856 |
| Accumulated depreciation | (4,856) | (4,856) |
| **Total leased assets** | **-** | **-** |
| | | |
| **Construction in progress** | **13,868** | **12,704** |
| **Total property, plant and equipment** | **209,892** | **204,596** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (cont.)

The movements in property, plant and equipment are:

| | Construction in progress $'000 | Land and buildings $'000 | Plant and equipment $'000 | Leased assets $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| **Period Ending 30 June 2013** | | | | | |
| Balance at the beginning of the period | 12,704 | 63,513 | 128,379 | - | 204,596 |
| Capital expenditure | 27,810 | - | - | - | 27,810 |
| Disposals | (600) | (24) | (122) | - | (746) |
| Depreciation | - | (2,822) | (17,963) | - | (20,785) |
| Impairment | (983) | - | - | - | (983) |
| Transfers | (25,063) | 5,877 | 19,186 | - | - |
| Balance at the end of the financial period | 13,868 | 66,544 | 129,480 | - | 209,892 |
| **Period Ending 30 June 2012** | | | | | |
| Balance at the beginning of the period | 16,892 | 60,555 | 119,898 | 521 | 197,866 |
| Capital expenditure | 27,569 | - | - | - | 27,569 |
| Disposals | - | (3) | (126) | - | (129) |
| Depreciation | - | (2,832) | (17,357) | (521) | (20,710) |
| Transfers | (31,757) | 5,793 | 25,964 | - | - |
| Balance at the end of the financial period | 12,704 | 63,513 | 128,379 | - | 204,596 |

## 13. NON-CURRENT ASSETS – INTANGIBLE ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | **2013** $'000 | **2012** $'000 |
| Brand | 405 | 405 |
| Water rights | 1,175 | 1,175 |
| **Total intangible assets** | **1,580** | **1,580** |
| Movement in intangibles | | |
| Balance at the beginning of the financial period | 1,580 | 1,788 |
| Impairment of water rights | - | (208) |
| Balance at the end of the financial period | 1,580 | 1,580 |

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. Impairment was tested by reference to third party market valuation.

## 14. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Trade payables | 121,363 | 110,877 |
| Accrued charges and sundry creditors | 23,577 | 19,573 |
| **Total payables** | **144,940** | **130,450** |

The average credit period on purchases is 30 days from the month the goods are received in, except for certain professional fees. No material amounts of interest are charged on late payments.

The classification between trade payables and accrued charges and sundry creditors has been updated to reflect the nature of the component balances. Comparatives have been restated where necessary to ensure comparability.

Judgement is used in assessing trade payables due to customers under product supply contracts which require a periodic reconciliation to specific terms of those contracts.

## 15. CURRENT LIABILITIES – BORROWINGS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Current - at amortised cost | | |
| Bank overdraft | - | 3,127 |
| Secured term loans | 601 | 9,689 |
| **Total** | **601** | **12,816** |

For further details on borrowings and facilities see note 2.

## 16. CURRENT LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Fair value of derivatives | 7,191 | 419 |
| **Total** | **7,191** | **419** |

## 17. CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Employee benefits | 22,893 | 21,464 |
| **Total** | **22,893** | **21,464** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 18. NON-CURRENT LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Derivatives | - | 7 |
| **Total** | **-** | **7** |

## 19. NON-CURRENT LIABILITIES – BORROWINGS

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Secured term loans | 110,300 | 102,013 |
| **Total** | **110,300** | **102,013** |

For further details on borrowings and facilities, see note 2.

## 20. NON-CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Employee benefits | 2,198 | 2,186 |
| **Total** | **2,198** | **2,186** |

The number of employees in the Group at 30 June 2013 was 1,629 (2012: 1,360).

## 21. SHARE CAPITAL

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| **a. Share Capital** | | |
| **Ordinary shares fully paid** | **101,902** | **101,279** |

In April 2011 the shareholders of Bega Cheese resolved to approve changes to the Constitution. The new Constitution was required to enable Bega Cheese to list on the ASX. On 18 July 2011, all "A Class" shares and "B Class" shares were converted to ordinary shares on a one-to-one basis as part of Bega Cheese adopting the new Constitution. Bega Cheese has only had one type of share capital since that date.

On 18 July 2011 Bega Cheese issued a prospectus inviting the public and employees of Bega Cheese to subscribe for shares. Under the offer, 17,500,000 shares were issued to the public at an issue price of $2.00 per share. In addition 532,975 shares were issued to staff of Bega Cheese under the Tax Exempt Plan and the Incremental Plan for no consideration. In total 18,033,000 ordinary shares were issued for consideration totalling $35,000,000, with the shares being issued and the cash proceeds from the issue of shares being received in August 2011. Bega Cheese incurred costs normally associated with issuing shares and listing on the ASX. At 30 June 2012, cumulative expenses of $3,481,000 had been incurred of which $2,602,000 were attributed to the new capital and were written off against the equity raised on listing, net of tax. No further expenses were incurred in 2013. Bega Cheese formally listed on the ASX on 19 August 2011, with ordinary shares in Bega Cheese being tradable on the ASX from that date.

On 23 December 2011 Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares and as a result, secured 100% control of Tatura Milk. The shares were issued at $1.65 per share, giving share capital issued of $39,631,000. During the year to 30 June 2012 $1,058,000 after tax was incurred as one-off costs in completing the merger with Tatura Milk, which was treated as a deduction against equity. For further detail on the transaction, see note 28.

On 1 May 2012, 287,201 shares were issued to staff of Tatura Milk under the Tax Exempt Plan and the Incremental Plan for no consideration, bringing the total number of shares issued to employees to 820,176. The shares were issued to Tatura Milk employees at $1.68 per share. The total increase in equity in FY2012 due to employee share scheme issues was $1,548,000.

On 20 August 2012, 362,500 shares were issued to Bega Cheese employees under the Retention Award. In addition, 6,380 shares were issued under the dividend re-investment plan due to the holders of shares issued under the Retention Award. Further details on the share based payments are in note 32.

### b. Movement in Share Capital Value

| | A Class Shares | B Class Shares | Ordinary Shares | Total Shares |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Ordinary shares on issue at 1 July 2011 | 20,734 | 6,435 | - | 27,169 |
| Transfers between classes | (20,734) | (6,435) | 27,169 | - |
| Issue of shares on listing | - | - | 33,169 | 33,169 |
| Employee share scheme issues | - | - | 1,548 | 1,548 |
| Issue of shares as consideration on merger with Tatura Milk | - | - | 38,573 | 38,573 |
| Dividend re-investment plan issues | - | - | 820 | 820 |
| Ordinary shares on issue at 30 June 2012 | - | - | 101,279 | 101,279 |
| | | | | |
| Ordinary shares on issue at 1 July 2012 | - | - | 101,279 | 101,279 |
| Employee share scheme issues | - | - | 612 | 612 |
| Dividend re-investment plan issues | - | - | 11 | 11 |
| Ordinary shares on issue at 30 June 2013 | - | - | 101,902 | 101,902 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### c. Movement in Number of Shares

| | A Class Shares<br>Number '000 | B Class Shares<br>Number '000 | Ordinary Shares<br>Number '000 | Total Shares<br>Number '000 |
|---|---|---|---|---|
| Ordinary shares on issue at 1 July 2011 | 82,991 | 25,686 | - | 108,677 |
| Transfers between classes | (82,991) | (25,686) | 108,677 | - |
| Issue of shares on listing | - | - | 17,500 | 17,500 |
| Employee share scheme issues | - | - | 820 | 820 |
| Issue of shares as consideration on merger with Tatura Milk | - | - | 24,019 | 24,019 |
| Dividend re-investment plan issues | - | - | 481 | 481 |
| Ordinary shares on issue at 30 June 2012 | - | - | 151,497 | 151,497 |
| Ordinary shares on issue at 1 July 2012 | - | - | 151,497 | 151,497 |
| Employee share scheme issues | - | - | 363 | 363 |
| Dividend re-investment plan issues | - | - | 6 | 6 |
| Ordinary shares on issue at 30 June 2013 | - | - | 151,866 | 151,866 |

### d. Classes of Ordinary Shares

On 18 July 2011, all 'A Class' shares and 'B Class' shares were converted to ordinary shares on a one-to-one basis as part of Bega Cheese adopting a new Constitution on that date to ready the Company for listing on the ASX.

As the Company does not have a right to unconditionally repurchase the shares, the shares are classified in equity.

### e. 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 capital and gearing ratio.

## 22. RESERVES

### a. Reserves

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Share based payment reserve | 518 | 855 |
| Capital profits reserve | 33,959 | 33,959 |
| Hedging reserve | (3,226) | (358) |
| Fair value reserve | 6,901 | 3,626 |
| Transactions with non-controlling interest reserve | (12,567) | (12,567) |
| | **25,585** | **25,515** |

### b. Nature and Purpose of Reserves

The share based payment reserve is used to recognise the fair value of shares due to be issued to employees by the Company under the Bega Cheese and Tatura Milk Tax Exempt Plans and the Incremental Share Plans and the Long Term Incentive Plan. For further details see note 32 and the Remuneration Report. The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1. The capital profits reserve is held to maintain adequate equity balances in the business. The fair value reserve is used to record gains or losses on fair value movements on investments held-to-maturity. 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.

## 23. DIVIDENDS TO SHAREHOLDERS

| | COMPANY | |
|---|---|---|
| | **Full year 2013** | **Full year 2012** |
| | $'000 | $'000 |
| Recognised amounts: | | |
| 2013 Interim dividend of 3.50 cents | 5,325 | - |
| 2012 Final dividend of 3.50 cents | 5,315 | - |
| 2012 Interim dividend of 3.00 cents | - | 4,522 |
| | | |
| Unrecognised amounts: | | |
| Final dividend of 4.00 cents (2012: 3.50 cents) | 6,075 | 5,315 |
| | | |
| Value of the dividend franking account | 3,935 | 5,533 |

The dividends paid in 2013 and 2012 were fully franked. The 2013 final dividend will be fully franked.

The above amounts represent the balance of the franking account as at the end of the year, adjusted for franking credits that will arise from the payment of the provision for income tax.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 24. REMUNERATION OF AUDITORS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $ | $ |
| **Audit Services** | | |
| PwC Australia - Audit of financial report | 295,640 | 289,840 |
| PwC Australia - Review of financial report | 89,760 | 88,000 |
| Non-PwC Australia firm - Audit and review of financial report | 11,000 | 14,500 |
| **Non-audit Services** | | |
| PwC Australia - Other services | 166,440 | 190,900 |
| Non-PwC Australia firm - Other services | 125,155 | 82,500 |

## 25. CONTINGENT LIABILITIES, GUARANTEES AND WARRANTIES

The Group provides warranties for products it supplies to customers in the ordinary course of business on reasonable commercial terms. No material warranty claims have arisen since 30 June 2013 which results in the need to raise additional liabilities of the Group as at 30 June 2013.

## 26. COMMITMENTS

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| **a. Capital Commitments** | | |
| Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows: | | |
| Capital expenditure - payable within one year | | |
| Plant and equipment | 5,085 | 4,034 |

### b. Lease Commitments - Group as Lessee

Non-cancellable operating leases

Operating leases of $2,193,000 (2012: $1,274,000) relate to equipment with lease terms of up to five years and no option to extend. Bega Cheese does not have an option to purchase the leased asset at the expiry of the lease period. The additional leases included in the Group relate to motor vehicle operating leases. The motor vehicle leases typically run for a period of one to five years with an option to renew the lease after this date.

| | CONSOLIDATED | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Within one year | 707 | 659 |
| Between one and five years | 1,606 | 1,369 |
| **Total** | **2,313** | **2,028** |

# 27. 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. During the period the Group had the following transactions with CCFA:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $ | $ |
| Sales made to CCFA | 8,627,000 | 10,781,000 |
| Rent paid by CCFA to Bega Cheese | 214,512 | 205,344 |

Further details of the joint venture are included in note 28.

## b. Key Management Personnel Remuneration

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $ | $ |
| Short-term employee benefits | 3,959,328 | 3,161,399 |
| Post employment benefits | 215,959 | 257,219 |
| Long term employee benefits | 251,496 | 255,072 |
| Share-based payments | - | 420,288 |
| **Total** | **4,426,783** | **4,093,978** |

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### c. Equity Instrument Disclosures Relating To Key Management Personnel

The number of shares in the Company held during the financial year by each Director of Bega Cheese and other Key Management Personnel of the Group, including their personally related parties are set out below.

| 2013 - Numbers of ordinary shares | Balance at start of year | Granted as part of Bega Cheese Share Plan | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Executive Chairman** | | | | |
| Barry Irvin | 3,004,984 | - | - | 3,004,984 |
| **Executives** (1) | | | | |
| Aidan Coleman | 130,000 | - | 2,500 | 132,500 |
| Colin Griffin | 120,000 | 101,760 | - | 221,760 |
| Paul van Heerwaarden | 45,000 | - | - | 45,000 |
| David McKinnon | - | - | 5,000 | 5,000 |
| Grattan Smith | 1,526 | 25,440 | - | 26,966 |
| **Non-executive Directors** | | | | |
| Richard Cross | 293,547 | - | 4,000 | 297,547 |
| Joy Linton | 20,000 | - | - | 20,000 |
| Peter Margin | 6,500 | - | - | 6,500 |
| Jeff Odgers | 163,174 | - | - | 163,174 |
| Richard Parbery | 2,664,012 | - | - | 2,664,012 |
| Richard Platts | 3,680,247 | - | - | 3,680,247 |
| Max Roberts | 1,755,000 | - | - | 1,755,000 |

| 2012 - Numbers of ordinary "A Class" shares | Balance at start of year | Granted as part of Bega Cheese Share Plan (Tatura Milk staff) | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Executive Chairman** | | | | |
| Barry Irvin | 3,004,984 | - | - | 3,004,984 |
| **Executives**[(1)] | | | | |
| Aidan Coleman | - | - | 130,000 | 130,000 |
| Colin Griffin | - | - | 120,000 | 120,000 |
| Paul van Heerwaarden | - | 20,000 | 25,000 | 45,000 |
| Grattan Smith | - | - | 1,526 | 1,526 |
| **Non-executive Directors** | | | | |
| Richard Cross | - | - | 293,547 | 293,547 |
| Tom D'Arcy[(2)] | 1,280,276 | - | (1,280,276) | - |
| Joy Linton | - | - | 20,000 | 20,000 |
| Peter Margin | - | - | 6,500 | 6,500 |
| Jeff Odgers | - | - | 163,174 | 163,174 |
| Richard Parbery | 2,664,012 | - | - | 2,664,012 |
| Richard Platts | 3,537,956 | - | 142,291 | 3,680,247 |
| Max Roberts | 1,675,000 | - | 80,000 | 1,755,000 |

Prior to Bega Cheese listing on the ASX, only current and former milk suppliers were eligible to hold shares in the Company. From 19 August 2011, in accordance with ASX listing rules, shares in the Company could be purchased by the public, including by members of staff and KMPs.

(1) only KMPs with shareholdings are shown in the above tables.

(2) other changes during the year includes de-recognising shares attributable to a former KMP and does not reflect a disposal of shares.

## d. Transactions with Directors and Director Related Entities

During the year, supplier Directors and their related entities had transactions with Bega Cheese relating to the supply of milk. These transactions were on the same normal commercial terms as other suppliers and are summarised in the table below:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $ | $ |
| Milk payments made by Bega Cheese | 8,085,608 | 7,865,339 |
| Amounts outstanding at year end | 603,567 | 367,005 |

The Executive Chairman of Bega Cheese, Barry Irvin, is a director of the Gardiner Foundation. Tatura Milk has a "collaboration" agreement with the Gardiner Foundation to undertake research and development activities around energy efficiencies. In 2011, the Gardiner Foundation secured a government grant and provided $300,000 in 2012 (2013: $nil) in funding to Tatura Milk in order to undertake a joint project.

The Executive Chairman of Bega Cheese, Barry Irvin, became a director of WCB in November 2010, and resigned in March 2013. The Bega Cheese Group trades dairy products with WCB on normal commercial terms. During the period of his directorship, purchases totalled $10,531,000 (2012: $7,517,310) and sales totalled $7,287,000 (2012: $4,025,950).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 28. SUBSIDIARY AND JOINT VENTURE

| | Country of Incorporation | Class of Shares | 2013 Holding % | 2012 Holding % |
|---|---|---|---|---|
| Tatura Milk Industries Limited | Australia | Ordinary | 100 | 100 |
| Capitol Chilled Foods (Australia) Pty Ltd | Australia | Ordinary | 25 | 25 |

The proportion of ownership interest is equal to the proportion of shares held.

**Tatura Milk**

In December 2011, Bega Cheese secured 100% ownership of Tatura Milk by way of a merger under a scheme of arrangement in accordance with Section 412 of the Corporations Act 2001. The details of this merger were set out in a scheme booklet dated 17 November 2011, which was issued to the owners of Tatura Milk redeemable preference shares in November 2011. The key elements of the merger were as follows:

- Bega Cheese offered to acquire all of the Tatura Milk redeemable preference shares, representing approximately 30% of the total Tatura Milk shares issued.
- At the time of the offer Bega Cheese held all of the ordinary shares of Tatura Milk, being approximately 70% of total Tatura Milk shares issued.
- Consideration for the offer was 2 Bega Cheese ordinary shares for every 1 Tatura Milk redeemable preference share.
- The value of Bega Cheese's offer was $3.40 per Tatura Milk redeemable preference share, based on the weighted average price of Bega Cheese shares sold on the ASX from the date the merger was announced (4 October 2011) to the day before the date of the scheme booklet (16 November 2011).
- A general meeting and a scheme meeting of the relevant shareholders of Tatura Milk were held on 14 December 2011, at which time the shareholders overwhelmingly voted in favour of the merger.
- The supreme Court subsequently approved the scheme and implementation of the scheme and the merger were completed on 23 December 2011.

As a result of the merger, Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares. During the year to 30 June 2012, one-off costs of $1,058,000 were incurred in completing the merger with Tatura Milk, which were treated as a deduction against equity. No costs were incurred in the current period.

**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 | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Income | 15,491 | 16,611 |
| Expenses | (13,925) | (14,629) |
| Profit after tax | 1,566 | 1,982 |
| | | |
| Current assets | 3,450 | 2,778 |
| Long term assets | 770 | 768 |
| Total assets | 4,220 | 3,546 |
| Total current liabilities | 3,087 | 2,167 |

## 29. 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.

### a. Statement of Comprehensive Income and Summary of Movements in Consolidated Retained Earnings

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".

Bega Cheese owns the investment in CCFA. There is no significant variation between the Consolidated Statement of Comprehensive Income for the closed group and the consolidated entity. In addition, the results of CCFA are disclosed in Note 28.

### b. Consolidated Balance Sheet

Bega Cheese owns the investment in CCFA. There is no significant variation between the balance sheet for the closed group and the Consolidated Balance Sheet. In addition, the results of CCFA are disclosed in Note 28.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

For the purpose of the cash flow statement, cash includes cash on hand, in banks and investments in money market instruments, net of outstanding bank overdrafts.

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **a. Reconciliation of Cash and Cash Equivalents** | | |
| Cash and cash equivalents | 24,235 | 6,053 |
| Less: Bank overdraft | - | (3,127) |
| **Balance per statement of cash flow** | **24,235** | **2,926** |
| | | |
| **b. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities** | | |
| Profit after income tax | 25,445 | 20,429 |
| | | |
| **Adjustments for non-cash items:** | | |
| Depreciation of non-current assets | 20,785 | 20,710 |
| Impairment of tangible assets | 983 | - |
| Impairment of intangible assets | - | 208 |
| (Profit)/loss on sale of | | |
| property, plant and equipment | (25) | 100 |
| assets held for resale | - | 9 |
| Interest income received and receivable | (219) | (431) |
| Interest payable on leases | - | 89 |
| Dividend received | (1,000) | (1,250) |
| Non-cash employee benefit expenses - share based payments | 275 | 1,548 |
| Fair value adjustment to derivatives | 30 | - |
| | | |
| **Changes in operating assets and liabilities:** | | |
| (Increase) / decrease in assets: | | |
| Trade and other debtors and GST recoverable | (5,540) | (14,695) |
| Inventories | (609) | (58,073) |
| Prepayments | (220) | 1,936 |
| Deferred tax asset | 4,913 | 330 |
| | | |
| **Increase / (decrease) in liabilities:** | | |
| Trade and other payables | 14,491 | 13,646 |
| Provision for income taxes payable | 1,236 | 1,743 |
| Changes in provisions | 1,441 | 3,162 |
| **Net cash flow from operating activities** | **61,986** | **(10,539)** |

Details of the merger with Tatura Milk are set out in notes 21 and 28.

| | | |
|---|---|---|
| **c. Non-cash investing activity** | | |
| Acquisition of redeemable preference shares in Tatura Milk by means of issue of share capital | - | 39,631 |

## 31. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | **2012** |
| | Cents | Cents |
| Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent: | | |
| Basic earnings per share | 16.76 | 12.81 |
| Diluted earnings per share | 16.68 | 12.77 |

| | **2013** | **2012** |
|---|---|---|
| | Number | Number |
| Weighted average of number of shares used as the denominator in calculating basic earnings per share | 151,815,380 | 136,896,286 |
| Adjustments for calculation of diluted earnings per share: | | |
| Employee share scheme | 50,670 | 362,500 |
| Contingent employee incentives | 708,842 | - |
| Weighted average of number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 152,574,892 | 137,258,786 |

| | **2013** | **2012** |
|---|---|---|
| | $'000 | $'000 |
| Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share | 25,445 | 17,534 |

## 32. SHARE BASED PAYMENTS

### a. Bega Cheese Group Share Plans

In FY2011, the Board established two employee share plans: the Tax Exempt Plan and the Incremental Plan. The aim of the plans was to reward staff for their loyalty and contribution to the listing of Bega Cheese on the ASX by a one-off issue of shares. Shares under both schemes were issued for no consideration.

Awards made under the tax exempt plan cannot be disposed of until the earlier of three years after the date on which they were issued and the date on which the holder ceases to be an employee of Bega Cheese.

The incremental plan has two elements, being a Loyalty Award and a Retention Award. Shares granted under the Loyalty Award were determined by the Board having regard to the relevant employee's position within and period of service with Bega Cheese. These shares are not subject to any restrictions on sale.

Under the Retention Award, the Board utilised the incremental plan to allocate rights to certain senior executives to subscribe for and be issued with new shares in twelve months' time from the listing date for no monetary payment, subject to them remaining Bega Cheese employees.

In FY2012 shares were issued to staff on two occasions, one to Bega Cheese staff and one to Tatura Milk staff. On 19 August, 532,975 shares were issued to Bega Cheese employees at $2.00 per share, which was accrued as an expense in the FY2011 accounts. On 1 May 2012, 287,201 shares were issued to Tatura Milk employees at $1.68 per share. The cost of $482,000 was included in the FY2012 accounts.

The Retention Award vested on 20 August 2012 with 362,500 shares issued. The cost of these shares relating to FY2013 that was expensed during the year was $86,000 (2012: $649,000).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The tables below summarise the number of shares and value of share-based payment transactions:

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | **2013** Number | **2013** $'000 | **2012** Number | **2012** $'000 |
| **Shares issued to Bega Cheese staff** | | | | |
| Expense per profit and loss | | | | |
| Tax Exempt Plan | - | - | 275,000 | 550 |
| Incremental Plan | | | | |
| Loyalty Award | - | - | 270,000 | 540 |
| Total expense of shares offered to Bega Cheese employees | - | - | 545,000 | 1,090 |
| Entitlements not taken up by employees | - | - | (12,025) | (25) |
| Shares issued to employees on listing on 19 August 2011 | - | - | 532,975 | 1,065 |
| **Shares issued to Tatura Milk staff** | | | | |
| Expense per profit and loss | | | | |
| Tax Exempt Plan | - | - | 76,250 | 128 |
| Incremental Plan | | | | |
| Loyalty Award | - | - | 210,951 | 354 |
| Shares issued to employees on 1 May 2012 | - | - | 287,201 | 482 |
| **Shares issued under the Retention Award** | | | | |
| Brought forward | - | 649 | - | - |
| Expense | - | 86 | - | 649 |
| Total expense of shares offered under the Retention Award | - | 735 | | 649 |
| Adjustment to reflect issue price of shares | - | (123) | - | - |
| Shares issued to employees on 20 August 2012 | 362,500 | 612 | - | - |

## b. Expenses arising from Bega Cheese Limited Long Term Incentive Plan

During the year, an expense of $189,000 (2012: $181,000) was incurred in relation to the potential issue of shares under the Bega Cheese Limited Long Term Incentive Plan (Plan). Details of the Plan are set out in the Remuneration Report.

## c. Expenses arising from Share-Based Payments

Total expenses arising from share-based transactions recognised during the period as part of employee benefit expense were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2013** $'000 | **2012** $'000 |
| Entitlements due under employee share schemes | | |
| Tax Exempt Plan | - | 128 |
| Loyalty Award | - | 354 |
| Retention Award | 86 | 649 |
| | 86 | 1,131 |
| Expense in relation to Long Term Incentive Plan | 189 | 181 |
| Total expense | 275 | 1,312 |

## 33. PARENT ENTITY FINANCIAL INFORMATION

### a. Summary Financial Information

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

| | BEGA CHEESE | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Current assets | 180,298 | 182,010 |
| Total assets | 420,830 | 418,666 |
| | | |
| Current liabilities | (119,439) | (108,716) |
| Total liabilities | (208,874) | (212,501) |
| Net assets | 211,956 | 206,165 |
| | | |
| Shareholder's equity | | |
| Issued capital on Consolidation | 101,902 | 101,279 |
| Group Consolidation adjustments | 570 | 570 |
| Issued capital of Parent Entity | 102,472 | 101,849 |
| | | |
| Reserves | | |
| Share based payment reserve | 518 | 855 |
| Capital profits reserve | 32,565 | 32,563 |
| Hedging reserve | - | (256) |
| Fair value reserve | 6,939 | 3,653 |
| Retained Earnings | 69,462 | 67,501 |
| Total equity | 211,956 | 206,165 |
| | | |
| Profit after tax for the year | 12,601 | 4,931 |
| Total comprehensive income/(loss) | 16,146 | (1,245) |

### 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 29.

### c. Contingent Liabilities of the Parent Entity

The parent entity did not have any contingent liabilities as at 30 June 2013 or 30 June 2012.

### d. Contractual Commitments for the acquisition of Property, Plant or Equipment

As at 30 June 2013, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $2,365,000 (2012: $1,034,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 34. RECLASSIFICATION OF ITEMS IN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The classification of revenue was reviewed in the current year as the amount of revenue generated from services has increased. Due to the growing significance of this item, revenue is now analysed between sale of goods and services. As a result, service revenue of $4,545,000 has been reclassified from sales of goods in the prior year. In addition, $6,159,000 previously in cost of sales was reclassified in the prior year as service revenue. The presentation has been corrected by restating each of the affected financial statement line items for the prior period as follows:

| | TATURA MILK | | |
|---|---|---|---|
| | **30 June 2012 As Reported** | **Increase/ (Decrease)** | **30 June 2012 Restated** |
| | $'000 | $'000 | $'000 |
| Sales of Goods | 926,752 | (4,545) | 922,207 |
| Services | - | 10,704 | 10,704 |
| Total revenue | 926,752 | 6,159 | 932,911 |
| Cost of sales | 811,386 | 6,159 | 817,545 |
| **Gross profit** | 115,366 | - | 115,366 |

Due to the changing nature of servicing customers, certain logistics costs incurred in delivering goods to customers were re-classified in the current year from marketing to distribution costs. In order to present all amounts consistently with this classification, the prior year figures have been re-stated as shown below:

| | BEGA CHEESE | | |
|---|---|---|---|
| | **30 June 2012 As Reported** | **Increase/ (Decrease)** | **30 June 2012 Restated** |
| | $'000 | $'000 | $'000 |
| Distribution expense | 30,872 | 5,320 | 36,192 |
| Marketing expense | 12,268 | (5,320) | 6,948 |

## 35. SUBSEQUENT EVENT

On 16 July 2013 the Group announced plans to build a nutritional powder blending and packing facility to support the continued growth of its infant formula business. At the same time the Group announced it had entered into a supply and services agreement with Omniblend Nourish Pty Ltd, which will have access to part of the capacity of the new facility.

# DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 34 to 78 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 2013 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.

c. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 29 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 29.

Note 1 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*

**Joy Linton**
*Independent Director*
*Melbourne*

*22 August 2013*

# 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 balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors’ declaration for Bega Cheese Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year’s 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 1, 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 opinions.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*DX 77 Sydney, Australia*
*T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

pwc

***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:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

***Report on the Remuneration Report***
We have audited the remuneration report included in pages 16 to 27 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

P.J. Carney

PJ Carney
Partner

Sydney
22 August 2013

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 28 June 2013.

## DISTRIBUTION OF EQUITY SECURITIES

| Holding | Number |
|---|---|
| 1 – 1,000 | 1,619 |
| 1,001 – 5,000 | 1,309 |
| 5,001 – 10,000 | 333 |
| 10,001 – 100,000 | 466 |
| 10,000 and over | 207 |
| | **3,934** |

There were 563 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 |
|---|---|---|
| Karara Capital | 5,646,226 | 3.72% |
| Perpetual Limited | 5,616,656 | 3.70% |
| Paewai Pty Ltd | 3,738,442 | 2.46% |
| RE Platts | 3,680,247 | 2.42% |
| Aljo Pastoral Pty Ltd | 3,004,984 | 1.98% |
| R & R Apps Pty Ltd | 2,823,972 | 1.86% |
| Jerang Pty Ltd | 2,664,012 | 1.75% |
| JL & KD Kimber | 2,500,066 | 1.65% |
| M & C Moffitt | 2,169,112 | 1.43% |
| C & M Beresford & B Game | 1,799,000 | 1.18% |
| Mirrabooka Investments | 1,786,186 | 1.18% |
| P C Shearer | 1,781,408 | 1.17% |
| S & M Roberts | 1,755,000 | 1.16% |
| SG Hiscock & Co | 1,745,885 | 1.15% |
| Cooper Investors | 1,707,422 | 1.12% |
| Jelgowry Pty Ltd | 1,630,150 | 1.07% |
| NG & NG Pearce | 1,611,888 | 1.06% |
| DMP Asset Management | 1,571,141 | 1.04% |
| Investors Mutual | 1,555,000 | 1.03% |
| PC, CL & AL Collett | 1,521,116 | 1.00% |
| | **50,307,913** | **33.13%** |

## 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 19 August 2016.

## 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.

## RESTRICTED SECURITIES

The following ordinary shares issued under the Bega Cheese Limited Tax Exempt plan are restricted from sale until the relevant three year period has been reached or an employee resigns from the company:

| | Number of securities | Maturity date |
|---|---|---|
| Ordinary shares issued to Bega Cheese employees | 214,250 | 15 August 2014 |
| Ordinary shares issued to Tatura Milk employees | 76,250 | 1 May 2015 |
| **Total shares** | **290,500** | |

# 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 SECRETARY

**Directors**
Barry Irvin
*Executive Chairman*

Max Roberts
*Director*

Richard Parbery
*Director*

Richard Platts
*Director*

Peter Margin
*Independent Director*

Joy Linton
*Independent Director*

Richard Cross
*Director*

Jeff Odgers
*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*

Grattan Smith
*General Manager Supply Chain*

## 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 and joint venture. 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.*

**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 2013 and is referred to as FY2013*

# OUR SITES



**STRATHMERTON**
*Murray Valley Highway*
*Strathmerton VIC 3641 Australia*

**COBURG**
*10-16 Allenby Street*
*Coburg VIC 3058 Australia*

**BEGA HEAD OFFICE**
*23-45 Ridge Street*
*North Bega NSW 2550 Australia*


**TATURA**
*236 Hogan Street*
*Tatura VIC 3616 Australia*

**BEGA**
*11-13 Lagoon Street*
*Bega NSW 2550 Australia*


Bega