2014 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.

CONTENTS

Canning infant formula at our Derrimut site.

KEY HIGHLIGHTS

PRODUCTS

BEGA CREAM CHEESE

Cream cheese continues its strong sales trajectory in the Asian region. Products such as Bega cream cheese are used by foodservice customers in bakery and café applications.

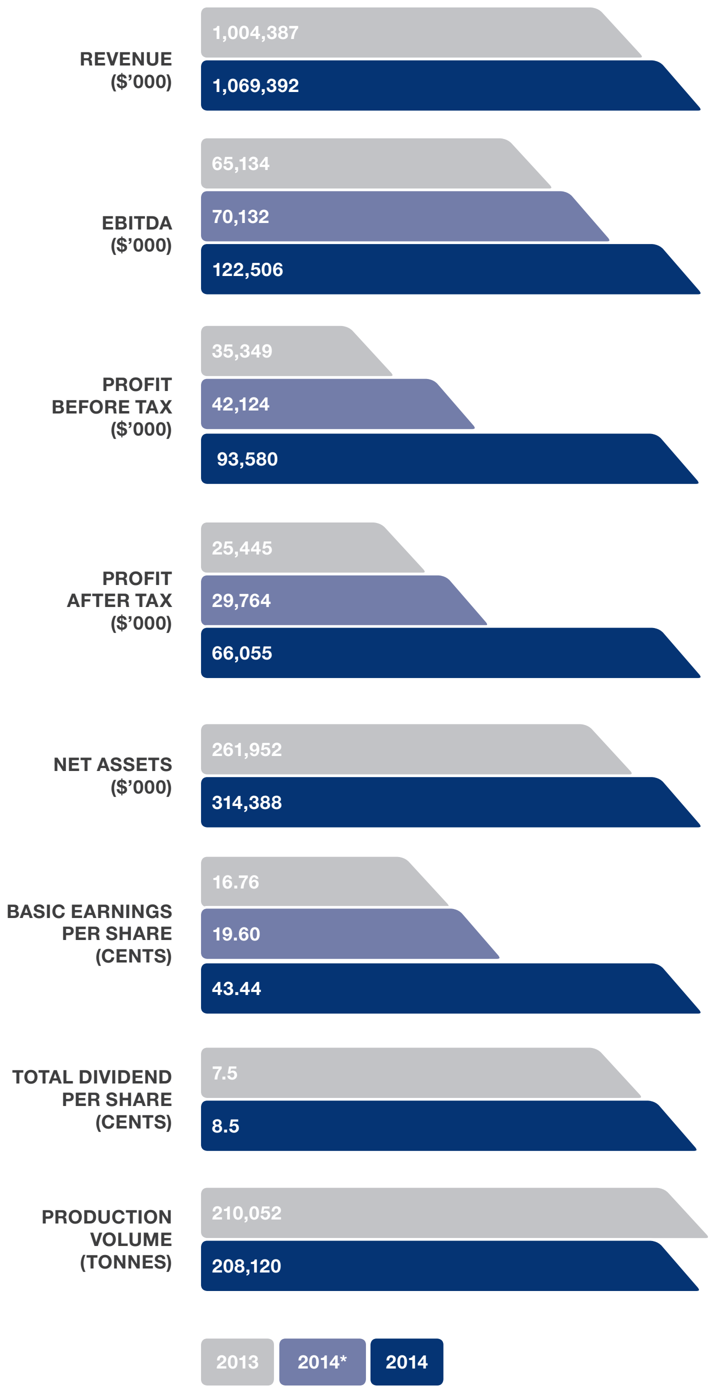
BEGA STRONG & BITEY VINTAGE CHEDDAR

Bega Strong & Bitey Vintage has the taste of success again this year with three gold medals in major cheese competitions. This product showcases the cheese making expertise and fine quality Bega Cheese is renowned for.

TATURA LACTOFERRIN

Lactoferrin extra production capacity has been fully utilised with new sales growth. Sales of lactoferrin, a milk bioactive protein, have benefited from the increase in premium infant formula products in China and consumer demand for supplements.

PERFORMANCE



*Normalised refers to the result excluding the impact of significant events occurring during the year.

EXECUTIVE CHAIRMAN'S REVIEW

Barry Irvin
Executive Chairman

"The FY2014 year will be long remembered in the dairy industry, a year that the opportunity and promise of Australian dairy came to the attention of not only global dairy players but the Australian financial and metropolitan press."

Bega Cheese's bid for Warrnambool Cheese and Butter Company Holdings Limited (WCB) in September 2013 began a process that was to hold a pre-eminent position in the Australian business community for the following 6 months and resulted in significant value creation for stakeholders.

The FY2014 accounts reflect the outcome of the WCB bid process, with Bega Cheese's decision to accept the Saputo Inc. bid resulting in $99 million being received for Bega Cheese's 19% stake, a profit before tax of $66 million (excluding transaction costs).

Total revenues of $1,069 million, EBITDA of $123 million and a profit before tax of $94 million reflect the outcome of the WCB transaction and the ongoing growth of our business. Revenues reflected very strong global commodity prices particularly in the first half of the financial year, continued growth in our nutritionals business and a decrease in volume through our cheese cutting, packaging and processing business. When considering year-on-year business performance, it is appropriate to have regard to the impact of two significant items in FY2014, being the sale of shares in WCB and payments under the Milk Sustainability and Growth Program. Both these items are explained in more detail in this annual report, with the financial outcomes of these two items being excluded to reflect the "normalised" result. The normalised results, as shown in the review of operations and activities include EBITDA of $70 million and profit before tax of $42 million which represents a growth of 7% and 17% respectively.

It was pleasing to see continued earnings per share growth in FY2014 with normalised EPS increasing 15% to 19.60 cents. Corporate activity, entry into the ASX 200, consistent financial performance and market interest in companies with the capacities to participate in the growing demand for high quality reliable food supply chains into developed and developing markets saw a significant increase in the Bega Cheese share price in FY2014 from $2.58 as at 30 June 2013 to $4.87 as at 30 June 2014. The increased share price and dividends in 2014 saw a total shareholder return of 92%.

Throughout Bega Cheese's history we have maintained a disciplined and focused strategy in regard to both business development and corporate activity. The Group has long believed that investing in and growing key platforms will maximise our competitive position and ensure we can deliver value to our customers and strong performance in terms of shareholder return and farm gate milk price to our suppliers. FY2014 has reflected that focus, with further investment in our nutritional platform in the form of our new infant formula blending and canning plant at Derrimut, a significant investment in whey drying capacity at Tatura, an increase in our lactoferrin manufacturing capacity and progression of our plans to implement a major whey proteins project.

The Group's focus on value added dairy products and long-term customer relationships remains. We continue to work closely with all our customers which include other major dairy companies Fonterra, Mead Johnson and Mondelez, retailers Coles, ALDI and Woolworths, many important international and domestic customers such as Bellamy's, Megmilk Snow, Lacto Japan, Means Marketing (Middle East) and Bel Group. Bega Cheese's business is unique in that we are able to supply all or part of the supply chain solution for our business-to-business customers while also growing our position for the Bega brand internationally. The Group will continue to investigate branded opportunities for other products in our key platforms of cheddar and processed cheese, cream cheese, infant formula and growing up milk powders.

There is much discussion about the significant growth in demand for dairy products. There is no question that the demand, particularly in Asia and other emerging economies, represents a great opportunity for Bega Cheese and the Australian dairy industry. We must however be careful both as a company and a nation to continue to focus on what will build competitive advantage in what is and will remain a highly competitive global industry. As a business we will continue to invest in technology and innovation to ensure a globally competitive infrastructure capable of delivering value added dairy products to an ever changing market.

There also remains a role for government in ensuring that Australia is in a position to compete against other similar dairy producing countries across the world. The execution of free trade agreements is only the beginning of what needs to be an ongoing process of ensuring Australia has competitive access to existing and emerging markets. As a nation we must continue to invest in research and development at both pre and post farm gate while also ensuring that our long term investment in skills and education will position us for a future that will require Australia to be capable of producing high quality, high value dairy products for markets wherever they might be in the world.

Sustainability of milk supply will always be very important to Bega Cheese. It has been pleasing to see a significant improvement in farm gate milk price in FY2014 as a result of strong global commodity prices and a more favourable currency position for much of the year. It will always be the case that farm gate milk prices will reflect the international market, currency relativities and competition for milk. Bega Cheese will always ensure its suppliers are delivered a highly competitive milk price with the goal of being a leader in pricing.

Bega Cheese believes that future demand for our existing and new products will be best met by growing our existing supply base and ensuring that our suppliers are adopting a sustainable approach in terms of environmental management and farming practices. With a clear view on future demand and the expectation of our customers, Bega Cheese has introduced two important strategic programs that strengthen our relationship with our suppliers. Our Milk Sustainability and Growth Program will see Bega Cheese support its suppliers in resource management, environmentally sustainable farming practices and supply growth projects and has been well received by our farmers, reflecting the strong foundations and relationships the Group has with its suppliers.

FY2014 has been an important one for Bega Cheese. The bid for WCB, investment in our key business platforms, strengthening of our relationship with our milk suppliers and customers, ongoing business growth and improved financial performance reflect the experience and discipline of the leadership team and the commitment of our staff. 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.

Barry Irvin
Executive Chairman
22 August 2014

WARRNAMBOOL CHEESE AND BUTTER INVESTMENT

THE OFFER FOR WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED (WCB)

For many years the team at Bega Cheese Group has recognised the opportunities in dairy and understood what it takes to build value in the Australian dairy industry. Over the last decade, Bega Cheese Group has strategically invested in the creation of a highly competitive dairy business through both acquisition and organic growth. The business has been very focused on strong long term customer relationships, globally competitive infrastructure and disciplined financial management.

In September 2013, Bega Cheese Group initiated a take-over bid for WCB. It was our firm belief that the time was right to bring together two Australian dairy companies with very similar histories and values.

As we stated at the time, a successful bid would progress consolidation in the Australian dairy industry, build on the strengths of both companies and improve return for shareholders and dairy farmers alike. Bega Cheese Group's initial bid of 1.2 Bega shares and $2 cash valuing WCB at $5.78 per share triggered a chain of events that will be long remembered as one of the most vigorously contested takeover bids in Australia's history.

It is a matter of history that the bid process became a three way tussle between Bega Cheese Limited, Canada's Saputo Inc. and Murray Goulburn Co-Operative Co. Limited (Murray Goulburn). In addition to what was to become a vigorous bidding war, the bid also required input or approvals from any number of regulatory authorities including the Australian Securities and Investments Commission, Australian Competition and Consumer Commission, and the Australian Takeovers Panel. To round out the story, the parent company of Fonterra Brands Australia (New Zealand Milk (Australasia) Pty Ltd) and Lion Pty Limited also had a role to play when they made their decision to invest in Bega Cheese Limited and WCB respectively.

As we reflect on the bid, we can be proud of the disciplined approach that Bega Cheese Group maintained throughout the process. The WCB bid significantly raised the profile of the Australian dairy industry. I congratulate all the participants including Saputo Inc. who ultimately were successful in gaining control of WCB, Murray Goulburn who, like Bega Cheese, were endeavouring to achieve a greater level of consolidation of the industry, and the WCB Board for achieving an excellent price for their shareholders.

From Bega Cheese Group's perspective our objective of bringing together WCB and Bega Cheese Limited was always to create value for shareholders and dairy farmers. There is always a price where value won't be created and there came a point in time for Bega Cheese Group, its shareholders and farmers, whereby more value would be created by accepting the Saputo Inc. offer, receiving $99 million and focusing on other opportunities.

The WCB bid significantly lifted Bega Cheese Group's corporate and industry profile, and its share price, a recognition of the value of the Australian dairy industry and Australia's dairy assets.

In addition, it generated for the Group a profit before tax and related transaction costs of $66 million and enhanced the business's capacity to execute both organic and corporate opportunities in the future.

As the annual accounts demonstrate, Bega Cheese Group's balance sheet, infrastructure, customer profile, knowledge and experience see it very well positioned to respond to the many opportunities in dairy.

B.A. Irvin

Barry Irvin
Executive Chairman
22 August 2014

Articles featured include extracts from "The Australian"; 6 November 2013 and 8 January 2014, "The Standard"; 16 November, "The Weekly Times"; 27 November 2013, and "Australian Financial Review"; 10 January 2014.

TRIBUNAL CALLS FOR MORE INPUT ON WARRNAMBOOL TAKEOVER

Political twist to stir dairy battle

BLAIR SPEEDY
TAKEOVERS

THE battle for Warrnambool Cheese & Butter is about to get political, with the Australian Competition Tribunal calling on state and federal governments to weigh in on whether Murray Goulburn's $532 million takeover offer for the company is in the public interest.

In a hearing of the tribunal in the Federal Court in Melbourne yesterday, judge John Mansfield said the tribunal would today request comments from the state and federal governments, as well as the Productivity Commission and the Australian Bureau of Agricultural and Resource Economics and Sciences.

ON THE TABLE

Saputo • Canadian dairy giant Saputo is offering $9 a share for WCB, but that price can increase to as much as $9.60. The WCB board supports Saputo's $520m bid, saying it is a superior offer.

Murray Goulburn • Murray Goulburn upped its WCB offer to $9.50 cash per share but needs approval by the Australian Competition Tribunal. The WCB board has rejected MG's $532m offer, warning it has too many hurdles.

Question is can Bega get foreign player for its stake

JOHN DURIE

WARRNAMBOOL Cheese & Butter chairman Terry Richardson is doing his best to kill a lucrative auction for his shareholders, but the real action now rests with what his big shareholders will do.

Richardson's board has consistently backed the certainty of the Saputo offer because it promises cash in five days when Murray Goulburn must await the February 28 ruling from the Australian Competition Tribunal.

WCB's attempts to close down the game are understandable.

It's been dragging on, but at the same time its small shareholders might want to wait to see what lies ahead if by some chance MG wins approval to make a bid.

That is what the big guys will be working on, and the small shareholders are best advised to take their advice, more based on what some of the big guys do than what the board says.

The good news for MG's Gary Helou was that the tribunal chairman judge John Mansfield went out of his way yesterday to make clear he would meet the statutory deadline ...

28 rather than let it drag on for longer as some, including this columnist, long suspected.

Mansfield has also said he would seek assistance from state and federal governments, including the Productivity Commission, ABARES et al. He can ask but none of the above is obliged to do anything, except for the Australian Competition & Consumer Commission, which is duty bound to act like quasi support staff.

The regulator has already ...

"The current movement in the dairy industry provides the chance for a major Australian player to be formed with a real presence in the world rather than necessarily an international company owning it."

Murray Goulburn has repeatedly played the patriotism card throughout the bid, highlighting its co-operative structure as a lure to WCB's hundreds of dairy farmer supplier-shareholders.

TAKEOVER TARGETS

Foreign raiders fail to win nation...

By PETER HEMPHILL, SIMONE SMITH and CIMARA PEARCE

FOREIGN bids for two of Australia's prime agribusinesses are facing a rising tide of opposition.

Canadian dairy giant Saputo has put up its third offer in a fortnight for Victorian company Warrnambool Cheese and Butter, and a poll conducted by GPS-Melbourne Institute shows more than half Australians oppose US grain trader Archer Daniels Midland's takeover of bulk handler GrainCorp.

THE SALE OF THESE COMPANIES TO FOREIGNERS IS REALLY NOT A DOMESTIC ISSUE..

NO.. NOT IF YOU SELL 'EM TO FOREIGNERS!

Victorian Premier Denis Napthine has declared he favours an Australian bidder to take over WCB and the United Dairyfarmers' of Victoria has lobbied Canberra against the "unfair" advantage the Federal Government had given Saputo over Australian bidders Murray Goulburn and Bega Cheese.

"I think it's up to the shareholders to make their own decisions about if they want to sell their shares and who they want to sell them to," Dr Napthine told The Weekly Times.

"I don't think governments should necessarily interfere with that but I personally would love to see an Australian company own (WCB) because I think

Suppliers ...

The 'bool's $6 million biotic man

By PETER HEMPHILL

WHO remembers Steve Austin, American TV's Six Million Dollar Man with bionic implants?

Well, Warrnambool has its own Six Million Dollar Man.

With Warrnambool Cheese and Butter's share price leaping bionically, the shares owned by the company's Bernard Kavanagh has made him the wealthiest member of staff.

Mr Kavanagh is not the bionic man, but the prebiotic man.

As corporate development general manager, he is responsible for strategic planning, corporate development and "pursuing profitable growth opportunities", according to the WCB 2013 annual report.

He is also a director of 50 per cent subsidiary Great Ocean Ingredients Pty Ltd, which produces specialty dairy products such as the pre-biotic nutritional ingredient Vivinal Gos.

Mr Kavanagh has 597,841 WCB shares — the most of anyone at the Allansford company.

At one stage in 2008, he held more than one million WCB shares. He sold 100,000 of them in 2008-09 and another 400,000 on market in 2009-10 when ...

ASX
$9.22 a WCB share at noon yesterday.

CHEESE PLATTER
CURRENT BIDS FOR WARRNAMBOOL CHEESE AND BUTTER

Dairy Broader industry good a key issue

Bega CEO weighs up options

Tim Binsted

Bega Cheese executive chairman Barry Irvin says he will not just go with the highest price when it comes to selling his company's 18.8 per cent stake in Warrnambool Cheese & Butter.

Mr Irvin said on Thursday that the Bega board is yet to meet to discuss its stake as the Friday deadline looms.

"It's an important date tomorrow should Saputo close, but we are thinking about a number of options. We've had a range of inquiries. The board can get together at short notice," he said.

Un-brie-lievable

Warrnambool Cheese & Butter share price ($)

Sep 12 Bega makes ...

Oct 8 Canada's Saputo makes all cash $7.00 a share offer, worth $393m

Oct 18 Murray Goulburn makes all cash $7.50 a share offer, worth $420m

Oct 25 Saputo raises to $8.00 a share, worth $449m

Oct 29 Lion pays $9.25 a share for 10% WCB stake

Nov 1 NZ's Fonterra acquires 6% stake in Bega
Nov 13 Murray Goulburn raises to $9.00 a share, worth $505m
Nov 15 Sauto raises to $9.00 a share, drops conditions
Nov 27 Murray Goulburn and Bega complain to Takeovers Panel about Saputo's bid after WCB dropped special dividend payments. Saputo temporarily banned from acquiring WCB shares
Nov 29 Fonterra increases Bega stake to 9%
Nov 28 Murray Goulburn raises to $9.50 a share, worth $532m

Dec 17 Saputo revises offer to $9.20 if its stake hits 50%; $9.40 if its stake hits 75%; and $9.60 at 90%. Is allowed to buy WCB share again
Dec 20 Bega's offer closes after lifting WCB stake to 18.8%
Dec 27 Bega in talks with offshore investors about its stake

Jan 10 Saputo offer set to close unless extended

10.00
9.00
8.00
7.00
6.00
5.00
October November December January

SOURCE: BLOOMBERG

"We'll make our decision based on Bega Cheese strategy and the right thing for suppliers and shareholders."

Based on WCB's $9.15 close price on Thursday, Bega's stake is worth almost $100 million. Excluding tax considera-...

Soaring WCB shares milk takeover battle

BRIDGET CARTER
TAKEOVERS

WARRNAMBOOL C... Butter shares continu... ascent to giddy height... yesterday, adding mor... speculation dairy co-op...

$8.59
Warrnambool Cheese & Butter closed

New $9 bid amid WCB shares halt

DAIRY INDUSTRY
By STEVE HYNES

CANADIAN company Saputo, one of three rivals in a takeover battle for Warrnambool ...

WARRNAMBOOL EST'D 1888

Phillip Tracy (right) ... yesterday's Warrnambool ...

Bega Cheese held a similar meeting at Warrnambool and attracted about 50 people, including suppliers, WCB shareholders and WCB employees.

Bega's other meetings at Mt Gambier, South Australia, and Ballarat had low attendances.

MILK SUSTAINABILITY AND GROWTH

MILK SUSTAINABILITY AND GROWTH PROGRAM

Building competitive advantage has always been the focus for Bega Cheese Group. Key in our growth story has been the Group's ability to respond to our customers' needs and ensure we have a supply chain that will meet their requirements now and in the future.

Our dairy farmers are the foundation of our supply chain, we have always been proud of the close links and long history between the Group and the dairy farmers who supply it. Both Bega Cheese and Tatura Milk have suppliers that can trace their association with the Group back to the very origins of both companies through relationships that have spanned generations, relationships of more than one hundred years.

Equally we have very strong, long term relationships with many of our customers. Our customer needs and priorities will always be changing regardless of where they are in the world and it is important that the Group maintains its focus on understanding those needs.

As we look to the future we can be sure that our customers will increasingly wish to ensure the food supplied to them is produced and manufactured in a sustainable manner. This goes beyond environmental sustainability and includes issues such as animal health and welfare, fertiliser and irrigation management, energy use and greenhouse gas emissions. Bega Cheese has long identified the importance of sustainability across the supply chain.

In terms of our dairy farmers we have been evolving a Bega Environmental Management System (BEMS) since 2004. The program includes all of the criteria mentioned above and a number of additional assessment criteria. We have been delighted to develop this ground breaking system in conjunction with our farmers and with the support of both Federal and State Government.

The BEMS program is an excellent management tool that greatly enhances farming practice and is viewed very positively by our customers. The time is right to roll out the program to our entire supply base. We believe that this program is so important that we are pleased to incentivise our farmers to join the program by committing approximately 3cpl (milk solids equivalent) to suppliers that join the

program. Sustainability isn't a short term issue, improvement and changes in environmental impact take time. With this in mind and given the significant financial commitment Bega Cheese has made to this program we have asked suppliers to enter into a three year supply agreement in conjunction with joining the BEMS program.

It is well documented that there is significant and continued global growth in demand for high quality dairy products. Many of our customers are talking to us about their growth projections and are keen to understand that we will be in a position to grow with them. As we considered strategic priorities for our supply chain we came to the firm view that encouraging growth from our existing supply was very important given the relatively low level of supply growth in recent years across the dairy industry.

The Group's objective is to significantly lift our supply in the next three years. We have introduced a supply growth program in which the Group will commit approximately 2cpl (milk solids equivalent) to on-farm projects that are assessed to be able to increase supply by up to 20% over a three year period.

The Milk Sustainability and Growth Program represents a very strategic approach to milk supply. Initiatives that improve environmental sustainability and farm practices encourage investment in business growth projects on farm and provide the Group with supply security and growth over the next three years. To reflect the significance of the initiative and ensure appropriate governance, a committee of the Board has been established to oversee the Program, namely the Milk Sustainability and Growth Committee.

We have been delighted with the response to our Milk Sustainability and Growth Program and we have announced a budget of $25 million to fund it. We currently have 60% of our supply signed up for the BEMS program and three year supply agreements and we have completed assessments on a small number of growth projects. We are very confident that the Milk Sustainability and Growth Program will in the future become the model for others to follow.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

Aidan Coleman
Chief Executive Officer

> *"In a year that could have been distracting due to corporate activity, it is pleasing to report that the Group's strong focus on its commercial and operational performance resulted in further year-on-year growth in sales and profitability to new record levels."*

OVERVIEW

The core activities of the business continue to be infant and follow-on nutritional powders, consumer packaged dairy products and core dairy ingredients business. These three platforms continue to be the core of the strategic direction of the Group and form the foundation of our re-investment programs.

FY2014 saw many fundamental dairy based commodities achieve record price levels, including whole-milk powder and skim-milk powder, while other commodities such as cheddar cheese lagged behind those milk powder based returns for the first half of the year. It is a testament to the diverse dairy platforms operated by the Group that the business generated record levels of profitability while also paying a leading milk price to its suppliers.

FINANCIAL PERFORMANCE

This review of operations & activities to shareholders refers to the continuing operations of the business, before the financial impact on profit of the sale of the WCB shares or the Milk Sustainability and Growth Program, which we will refer to as the "normalised" result. The table to the right shows the effect of the current year events on financial performance.

The normalised EPS for FY2014 was 19.60 cents, which represented a growth of 15% over the prior year. The Board has announced a year-end dividend of 4.5 cents per share, bringing the full year dividend to 8.5 cents per share.

While the relative value of the Australian currency did impact on the strong US denominated dairy commodity export returns throughout most of FY2014 the business generated a 6% year-on-year growth in sales revenue to achieve record sales for the third consecutive year. Net sales grew by $65 million to $1,069 million.

CONSOLIDATED	Per Financial Statements $'000	WCB outcome $'000	Milk Sustainability and Growth outcome $'000	Normalised outcome $'000
Period Ending 30 June 2014				
Revenue	1,069,392	-	-	1,069,392
Cost of sales	(951,117)	-	10,569	(940,548)
Gross profit	**118,275**	**-**	**10,569**	**128,844**
Other income and expenses	4,231	(62,943)	-	(58,712)
EBITDA	122,506	(62,943)	10,569	70,132
Depreciation, amortisation and impairment	(22,904)	-	-	(22,904)
EBIT	99,602	(62,943)	10,569	47,228
Finance costs, net	(6,022)	918	-	(5,104)
Profit before income tax	**93,580**	**(62,025)**	**10,569**	**42,124**
Income tax expense	(27,525)	18,336	(3,171)	(12,360)
Profit for the year	**66,055**	**(43,689)**	**7,398**	**29,764**
Gross profit margin	**11%**			**12%**
Basic earnings per share - cents	**43.44**			**19.60**
Period Ending 30 June 2013				
Revenue	1,004,387	-	-	1,004,387
Cost of sales	(874,344)	-	-	(874,344)
Gross profit	**130,043**	**-**	**-**	**130,043**
Other income and expenses	(64,909)	573	-	(64,336)
EBITDA	65,134	573	-	65,707
Depreciation, amortisation and impairment	(21,673)	-	-	(21,673)
EBIT	43,461	573	-	44,034
Finance costs, net	(8,112)	-	-	(8,112)
Profit before income tax	**35,349**	**573**	**-**	**35,922**
Income tax expense	(9,904)	(172)	-	(10,076)
Profit for the year	**25,445**	**401**	**-**	**25,846**
Gross profit margin	**13%**			**13%**
Basic earnings per share - cents	**16.76**			**17.02**

The underlying normalised earnings per share grew strongly in FY2014.

The resulting normalised EBITDA from continuing activities was $70 million, being an increase of 7% over prior year. The normalised net profit before tax was $42 million, growing 17% over prior year.

The income tax expense on the normalised result is at a rate consistent with the prior year. During the year, the Australian Taxation Office (ATO) undertook a tax audit of Tatura Milk, focussing on the FY2009 – FY2011 period. The ATO concluded the review subsequent to FY2014 and formally advised that no additional tax is payable in respect of the income tax assessments for these years.

The Group generated a normalised profit after tax of $30 million, being an increase of 15% over the prior year.

The strong Asian demand and subsequent high prices for dairy products saw dairy manufacturers competing vigorously for milk supply in NSW, Victoria and South Australia, which resulted in very strong prices being paid for milk supply throughout FY2014. The diversified nature of its dairy food business has enabled Bega Cheese Group to generate growth in profitability while also paying a leading milk price for farmers supplying the Group's dairy manufacture facilities.

In FY2014 the Group continued to grow its technically complex nutritionals and nutraceuticals ingredients business. These high value products were largely destined for Asian markets, with growth coming from investment in infant nutritional canning at Derrimut as well as strong demand for high quality lactoferrin produced in Tatura. In the past year we have seen growth in our export consumer packaged goods business which centres on natural cheese, processed cheese and cream cheese products for the retail and food service segments in Asia and the Middle East. This has been led by strong growth in processed cheese and cream cheese for the food service and bakery sectors in China and South East Asia. At the same time we generated strong growth in our core dairy ingredients business as a result of very strong global demand for core dairy commodities and specialised milk fat products.

While the funds generated by WCB enabled debt to be retired, the business has continued to maintain a very strong focus on its debt management controls. These combined factors have enabled the Group to end the year with a cash surplus net of all borrowings of $8 million. We expect this position to change in FY2015 as we pursue our capital investment program and identify value creating propositions.

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

CASH FLOWS AND DEBT

The Group achieved a significant improvement in its cash flow position during the year as a result of receiving proceeds of $99 million from the sale of the shares in WCB as well as generating strong operational cash flows. In FY2014, the business generated $40 million net cash inflow from operating activities.

The other key elements of cash flows in FY2014 include:

- Repayment of borrowings of $90 million
- Payment of $12 million in dividends
- Capital expenditure on property, plant and equipment of $28 million
- Payment for additional shares in WCB plus costs associated with the transaction of $5 million.

Good cash flow management also helped strengthen the balance sheet and the increase in net assets by 20% to $314 million was a solid performance. Inventory value increased by 13% over the prior year, reflecting higher inventory valuations due to higher milk prices this year, as well as additional raw materials for infant formula as the business readied itself for increased production off-take through its new Derrimut infant blending and canning facility in Melbourne.

SALES

In the FY2014 year the Group generated sales of $1,069 million. This reflected growth across all key business platforms. The year also saw the initiation of our "chef-led-selling program" in China and South East Asia to support the growth of our food service and bakery expansion in these regions. This has been highly successful and has seen the Group take a strong position in China's developing cream cheese market by training local pastry chefs in the skills required to bake with cream cheese.

In late FY2013 Bega Cheese Group negotiated with Mead Johnson Nutritionals Inc. (Mead Johnson) to take back 5,000 tonnes of production capacity on the MSD2 drier at Tatura Milk which Mead Johnson previously leased in full. This capacity was used effectively in FY2014 and our total nutritionals production grew 35% over the prior year to 26,668 tonnes this year.

In FY2014 we expanded our lactoferrin capacity to meet continued growth in the use of this product as a nutritionals ingredient, both for our own ingredient requirements in infant formula and to service the needs of other companies in the broader nutritionals sector. The Group considers dairy based bio-nutrients to be an exciting prospect for the future and is now investing resources in the further development of its lactoferrin business and to expand into other bio-nutritional areas aligned with our technology capabilities. While this may take several years to commercialise profitability we believe that the growing demand for nutritional products for all stages of human life is an expanding category for which dairy proteins may deliver many of the essential nutritional requirements of the future.

An integral part of the success of Bega Cheese Group is its enduring belief that every one of its customers is a valued extension of our own business. We maintain a broad customer base including manufacturers, retailers and distributor agents in markets in South East Asia, China, Japan and the Middle East as well as our extensive home base in Australia. Our domestic customers include Coles, Woolworths, Bellamy's, ALDI, Fonterra and Mondelez, while our key international customers include Lacto Japan and Megmilk Snow in Japan, Ingredia in France, Mead Johnson Nutritionals from the USA and an increasing portfolio of nutritional, food service and ingredient customers in China. We appreciate the support that these customers provide us and thank them for the strong partnerships Bega Cheese Group has been able to build with these companies over many years.

BEGA BRAND

The Bega brand is one of the few iconic Australian owned food brands that has an international presence. Total brand revenues, including its Australian franchise to Fonterra Brands (Australia) now exceed $250 million. It is the number one cheese brand in Australia. It has a presence in more than forty international markets from Chile to Dubai. The Bega brand encompasses a product portfolio that includes natural and processed cheese, mozzarella, cream cheese and butter. We have an objective to continue to grow the brand internationally with the key focus being on markets in Asia and Middle East.

OPERATIONS

Total Group production volumes declined by 1% to 208,120 tonnes over the prior year due to a drop in milk supply as well as our move to a lower volume, higher value production mix. We now operate six production facilities, having commissioned the Derrimut infant nutritional blending and canning factory in early 2014.

MILK PRODUCTION

Total milk collected across New South Wales, Victoria and South Australia from the Group's own direct supplier base was 599 million litres. In the spring of 2013 we experienced a drop in milk intake in northern Victoria and New South Wales as a result of intense price competition for milk by competitors who required additional milk to support domestic retailer contracts. In contrast to last year we are entering FY2015 with growing milk flows supported by our investment in the Milk Sustainability and Growth Program announced in May 2014. This program again demonstrated the vision and industry leadership provided by Bega Cheese Group in recognising the need to grow the total Australian milk supply while at the same time focusing on the potential for all our farmer supply base to improve sustainability productivity.

INVESTMENTS

The sale of our shares in WCB is well recorded and referenced throughout this Annual Report. The Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra. The performance of CCFA has deteriorated in FY2014, reflecting the competitiveness of retail milk pricing in the domestic market.

ENVIRONMENT

Bega Cheese Group has maintained its efforts to reduce resource intensity and impact on the environment close to our manufacturing sites, as well as improving environmental performance of the milk supplier base. The target set by the manufacturing operations to reduce energy intensity by 5% by FY2015 was passed in FY2014. Maintaining present performance will deliver a 10% reduction in energy intensity in FY2015 compared to FY2010.

This year marks the 10 year anniversary of our Bega Cheese Environmental Management System (BEMS) on-farm program. This financial year with funding support from the Federal Department of Agriculture, Bega Cheese established professional development programmes for our suppliers in the Central Victoria and Tatura regions which focus on improving production efficiency and profitability whilst reducing greenhouse gas emissions intensity. The Group is confident that our direct investment in on-farm sustainability and growth will build on the great work initiated by the BEMS program and will help to secure long-term strong, resilient and sustainable milk supply base.

As Bega Cheese Group is very focussed on sustainable development at its regional sites all projects under development have strong stakeholder engagement with regulators and the community to ensure that future environmental performance of enhanced manufacturing operations delivers better than the present good environmental performance.

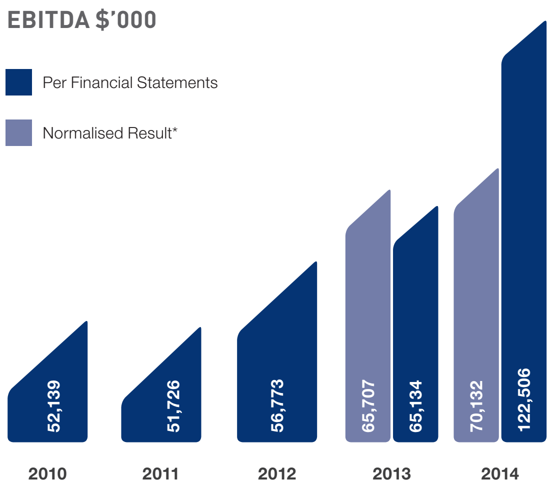
SAFETY

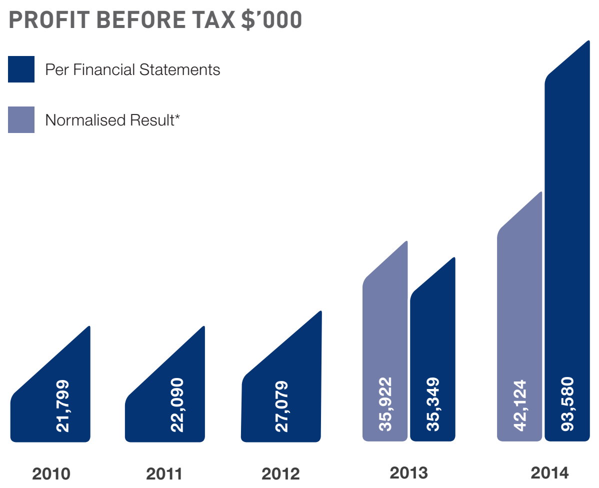
It was most pleasing to see the number of lost time injuries incurred by employees reduce by 19% in FY2014, and the number of days lost per injury reduce by 20%. Leaders in the business are committed to refining safety systems, processes and engagement to ensure that we achieve our goal of no injuries to anyone ever and to live our Core Value of Safety Always. The year saw the introduction of the Bega Cheese Group Six Golden Rules of Safety which provides all employees with the standards by which we are building the safety culture in the Group.

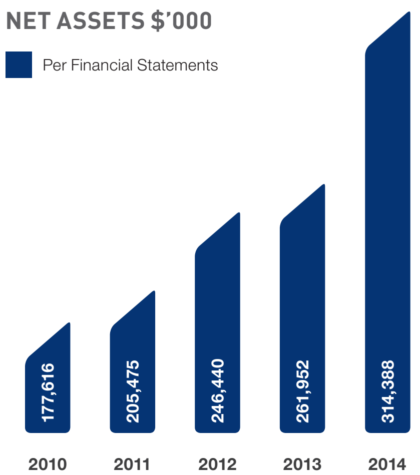
PEOPLE

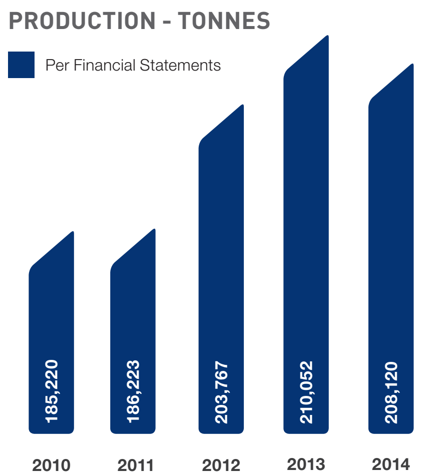
An employee engagement survey was conducted across the business during the year that gave employees the opportunity to give the leadership team feedback on how we can collectively make Bega Cheese Group an even better place to work. Employees consistently spoke positively about the organisation and its reputation in the communities in which we operate. The year saw the full introduction of the agreed values of the organisation; values that guide employee behaviour and decision making in order for all staff to make a difference.

The Group continues to evolve its structure as it recognises actual and potential competitive threats, opportunities to improve efficiency and develop new business opportunities. While change can be daunting, it is pleasing to see so many of our staff willing to confront change and take on new challenges. A good example in FY2014 was the ZOG Project to focus on zero overhead growth. While this was not designed to constrain new business development it worked well to focus the extended management leadership team on cost competitiveness and waste minimisation.









**Normalised refers to excluding the impact of significant events occurring during the year.*

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

STRATEGIC OUTLOOK

Toward the end of FY2014 we commenced the process of refreshing the Group's strategic plan. In an overall context we expect to retain the core direction of what we are pursuing today with renewed focus on:

- Extracting more value from existing milk component streams and production processes
- Investing in existing businesses and markets to improve efficiencies and competitiveness
- Identifying acquisitions that are aligned to either our technology base or fit within the overall capabilities of the Group.

In terms of a global dairy outlook we saw record dairy commodity prices through to the middle of FY2014. A number of supply and demand factors have contributed to a significant decline from these peaks. However, the demand for milk products continues to increase in Asia and we expect this will continue to provide a strong platform for the Australian dairy industry. We are investing in long term change in this regard.

With some contracts linked to underlying costs and others on fixed selling prices, the business manages its commercial risk by minimising manufacturing costs and the efficient use of plant capacities. Our key focus is to profitably sell safe food products competitively and we believe that our business model is well placed to deliver these objectives as our competitive environment changes.

In closing, I would like to recognise the efforts of all our 1,700 plus employees that help make Bega Cheese Group a success. I would particularly like to thank my executive team for their focused leadership in generating another record year. I know they, like me, are committed to building on the successful base we have today to take the Group to new levels.

Aidan Coleman
Chief Executive Officer
22 August 2014

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THE ANNUAL FINANCIAL REPORT OF THE BEGA CHEESE GROUP FOR THE YEAR ENDED 30 JUNE 2014.

BARRY IRVIN AM

Executive Chairman, Director since September 1989.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

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

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Warrnambool Cheese and Butter Factory Company Holdings Limited.

SPECIAL RESPONSIBILITIES

Chair of the Board and member of the Nomination & Human Resources Committee until 1 July 2014.

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

Director of Murray Dairy Inc.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Member of the Nomination & Human Resources Committee from 1 July 2014.

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 and subsidiaries.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of Audit & Risk Committee and Member of the Milk Sustainability and Growth Committee.

PETER MARGIN

BSc (Hons), MBA
Independent Director since June 2011.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of four other public companies: Nufarm Limited (Director since 2011), PMP Limited (Director since 2012), Ricegrowers Limited (Director since 2013) and Pact Limited (Director since 2013).

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

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

OTHER CURRENT DIRECTORSHIPS

Director of Dairy Australia Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Chair of the Milk Sustainability and Growth Committee.

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, a registered Self-Managed Superannuation Fund Auditor, Justice of the Peace NSW, an External Examiner for the Law Society of NSW and a member of the Australian Institute of Company Directors. Richard Parbery is experienced in servicing many agricultural and general business clients.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

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

MAICD

Director since September 1983.

EXPERIENCE AND EXPERTISE

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

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

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Chairman of Dairy Australia Limited.

SPECIAL RESPONSIBILITIES

Member of Nomination & Human Resources Committee and member of the Milk Sustainability and Growth Committee.

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 2014 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:

	2014 $'000	2013 $'000
Interim ordinary dividend for the year ended 30 June 2014 of 4.0 cents	6,090	-
Final ordinary dividend for the year ended 30 June 2013 of 4.0 cents	6,074	-
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

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $6,867,000 (4.5 cents per fully paid share) to be paid on 15 September 2014.

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

INDEMNIFICATION AND INSURANCE PREMIUMS FOR OFFICERS

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

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

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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, Richard Parbery, Peter Margin and Joy Linton are due to retire as Directors at the Annual General Meeting and, being eligible, offer themselves for re-election.

COMPANY SECRETARIES

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 29 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 31 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 and the recently formed Milk Sustainability and Growth Committee meetings held during the year ended 30 June 2014 and the number of meetings attended by each eligible Director and other members:

	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	4	4
Barry Irvin	4	4
Richard Platts	4	4
Max Roberts	4	4

	Meetings of the Milk Sustainability and Growth Committee	
	Held and Eligible	Attended
Joy Linton	6	2
Jeff Odgers	6	6
Max Roberts	6	6

Joy Linton gave apologies in advance of the meetings she was unable to attend.

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	27	27
Richard Cross	27	27
Joy Linton	27	27
Peter Margin	27	27
Jeff Odgers	27	27
Richard Parbery	27	26
Richard Platts	27	26
Max Roberts	27	27

Both Directors gave apologies in advance of the meeting they were unable to attend.

ENVIRONMENTAL REGULATIONS AND SUSTAINABILITY

Bega Cheese Group has maintained its efforts to reduce resource intensity and impact on the environment close to our manufacturing sites, as well as improving environmental performance of the milk supplier base. The manufacturing operations achieved their FY2014 target to reduce energy intensity by 5% by FY2015. Maintaining present performance levels will deliver a 10% reduction in energy intensity by FY2016 compared to FY2010.

During FY2014, the Group completed and verified savings of energy projects at the Bega and Coburg sites supported by funding from the Clean Technology Investment Fund, which is now closed. The energy projects delivered 15% and 22% reduction in energy intensity at the Lagoon Street and Ridge Street sites in Bega and 11% reduction in Coburg.

Bega Cheese Group on-farm environmental management system BEMS has entered its tenth year of implementation. This year has seen the major roll out of the BEMS Sustainability Assessment process with the Milk Sustainability and Growth Program across the entire milk supply base. Strong support from the South East Local Land Service has continued with a further $0.66 million invested with the BEMS program for priority on-ground works projects on dairy farms located near Bega.

Professional development programs for our suppliers have been well supported in the supply regions where they have been implemented. The Federal Department of Agriculture supports this extension work with funding. Bega Cheese Group also commenced development of a phone app to assist our suppliers managing paddock records, particularly soil nutrient levels.

Our Future Leaders program progressed well this year with seven suppliers across the Group sponsored to attend either the TRAIL Rural Leadership or Rabobank Farm Managers Program with funding support from the Federal Government.

Bega Cheese is very focussed on sustainable development at its regional sites with all projects under development having strong stakeholder engagement with the regulators and the community. All new development projects under consideration are assessed to ensure that future environmental performance of manufacturing operations delivers better than the present environmental performance.

ENVIRONMENTAL PERFORMANCE

Bega Cheese Group is subject to Federal and State environmental regulations for all six manufacturing sites. Four of the sites are licenced under State Environment Regulations. The licences stipulate performance standards for all emissions (including noise, air, odour and wastewater) from the sites as well as the frequency and method of assessment of the emissions. The Tatura and Coburg facilities operate under Trade Waste Agreements with the local municipal body for disposal of wastewater. Both sites maintain a close working relationship with the municipal body and work towards continuous improvement of the sites' environmental performance to deliver full compliance.

Tatura Milk is investing circa $7 million in technology to reduce powder emission from one of its drying plants. This compliments improvements made in FY2014 to the stormwater management system to improve the water quality in a local wetland.

Public reporting on the Bega Cheese website shows the environmental monitoring information and the performance of the two manufacturing sites in NSW. The sites operate under a single Environment Protection Agency (EPA) licence and continue to engage positively with the community and the regulator to address minor infractions.

The Tatura and the Bega sites had non-compliant environmental incidences in FY2014. These minor infractions were well managed by the sites with the risk clearly identified and programs put in place to prevent ongoing occurrences. The incidences, the environmental impact and management actions were assessed by the regulator and resulted in no punitive actions.

ENVIRONMENTAL REGULATIONS

Bega Cheese Group is subject to numerous environmental regulations with reporting requirements under the 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) as examples.

Bega Cheese sites in Tatura, Strathmerton and Bega all operate under licence from the relevant State EPA and our sites in Derrimut and Coburg although not directly licenced by the EPA must comply with relevant regulations relating to environment impact. The Group maintains an open and communicative relationship with various local representatives from the regulators at each site and are fully compliant with all requirements at Strathmerton and Derrimut. At sites where full compliance was not achieved in FY2014, the management team and the regulator are engaged and plans in place to achieve continuous improvement. The issues represent no material risk to the business as the regulator has deemed that the minor infractions do not warrant any financial penalties.

Reporting under the National Greenhouse and Energy Reporting Act 2007 will continue after the repeal of the Carbon Tax and 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 FY2014 was below FY2013 at circa 132 Kt of CO2 equivalents compared to 139 Kt. The reduction in energy use is the main factor behind the reduced energy intensity across the Group in FY2014.

Under the Clean Energy Regulations 2011 (Cth) Tatura Milk was 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 $1 million in FY2014. The repeal of the Carbon Tax will remove this liability but projected increases in energy costs may negate any benefit.

REMUNERATION REPORT

INTRODUCTION

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, Chief Executive Officer (CEO) and other key management personnel (KMP) of the Group, being the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2014.

KEY MANAGEMENT PERSONNEL (KMP)

Details of Directors are set out in the Directors' Report on page 16-17.

The CEO is appointed by the Board on recommendation from the Nomination & Human Resources Committee (NHRC). Other KMP are appointed by the CEO in conjunction with the Executive Chairman. The CEO and other KMP comprised the following people during the whole of FY2014:

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

REMUNERATION GOVERNANCE

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

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

The NHRC has two key roles:

1) to assess and make recommendations to the 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 the 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 the 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 the 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 the Group's current and future needs.

Further details of the role 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 KMP 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 the remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a key factor in determining the total remuneration for each KMP.

In reviewing KMP remuneration in FY2014, in the absence of any formal external remuneration recommendations being received, the General Manager Human Resources sourced comparative remuneration market data that focused on comparative organisations against criteria including revenue, market capitalisation, employee headcount and industry sector.

This information was taken into account by the NHRC in August 2013 to determine base salary adjustments for the Executive Chairman for his executive duties, and for the CEO and other KMP. The approved base salary adjustments were implemented with effect from 1 September 2013.

Executive KMP have a significant amount of their remuneration directly related to budgeted profit, trade working capital and safety targets. Stretch targets provide the opportunity for executive KMP to derive additional remuneration 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.

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, fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate calibre.

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles. Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Group.

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 Non-executive Directors. The Board confirmed 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 was 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.

Following receipt of the recommendation from Godfrey Remuneration Pty Ltd, the NHRC determined that, as from 1 November 2013, Directors' fees would increase by $3,500 (inclusive of superannuation).

During the year there were no changes to the composition of the Board nor the Chairs or membership on the two existing Board Committees, being the Audit & Risk Committee and the NHRC. No fees were payable in FY2014 on the Milk Sustainability and Growth Committee, which commenced in the year.

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

	Annual amount including super	
	Rate as from 1/11/2013	Rate prior to 1/11/2013
Fees and allowances by role	$	$
Chairman of the Board	175,000	175,000
Director fees	77,000	73,500
Chair of Audit & Risk Committee	15,000	15,000
Audit & Risk Committee member allowance	7,500	7,500
Chair of NHRC	12,000	12,000
NHRC member allowance	6,000	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 from its deliberations in relation to the level of remuneration which should be applied.

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

In FY2014, the Board reviewed the remuneration of the Executive Chairman for his executive duties, in conjunction with a recommendation from the NHRC. In making its recommendation, the NHRC took account of the benchmarking and related information referred to under "Remuneration Guidelines".

EXECUTIVE DUTIES AT BEGA CHEESE GROUP

The remuneration of the Executive Chairman for executive duties in FY2014 was set in accordance with the following principles:

- a base salary of $338,025, inclusive of superannuation, which is not subject to specific performance or deliverables criteria, but is adjusted up or down for any fees the Executive Chairman may earn from his role as director of related organisations
- remuneration earned by the Executive Chairman during the year ended 30 June 2014 from his responsibilities as a Director of the Geoffrey Gardiner Dairy Foundation Ltd was specifically deducted from his base salary in accordance with the above principle. No other remuneration from related organisations was earned during the year

- a structured at-risk short-term incentive up to $106,605 that was subject to achievement of agreed outcomes, as approved by the NHRC in August 2013
- in relation to the executive duties carried out by the Executive Chairman, an employment contract with the Group was entered into in June 2014.

The key terms of the Executive Chairman's service agreement are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity or breach of the service agreement by the 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.

NON-EXECUTIVE DUTIES AT BEGA CHEESE GROUP

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

REMUNERATION OF THE CEO

The Board, having regard to recommendations received through the NHRC, determines the remuneration of the CEO of the Group. The CEO's base remuneration was adjusted as from 1 September 2013 through the same benchmarking and recommendation process referred to under "Remuneration Guidelines".

The following principles apply to the remuneration of the CEO:

- an annual remuneration of $746,235 comprising base salary and superannuation
- a structured at-risk incentive up to $319,813 per annum subject to the achievement of agreed outcomes.

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

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity or breach of the service agreement by the 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.

REMUNERATION OF OTHER KMP

The total remuneration and remuneration structure of other KMP of the Group is reviewed on an annual basis and any changes are recommended by the 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 for each other KMP is determined as part of the annual remuneration and performance review process and comprises:

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

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

The base remuneration of other KMP was adjusted as from 1 September 2013 through the same benchmarking and recommendation process referred to under "Remuneration Guidelines".

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

During the year, the termination period or payment in lieu for the above KMP was extended from three to six months, where the termination is initiated by the company "without cause", being where the termination is not fully or partly attributable to the Executive's own performance or behaviour.

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

INCLUSION OF AT-RISK COMPONENT IN TOTAL REMUNERATION PACKAGE

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

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

All Executive KMP had an agreed and documented performance agreement for the financial year that set individual performance objectives, described what success looked like for each objective and identified development opportunities that would help them in their current and any future roles.

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

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

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

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

At the end of the financial year, the CEO assesses reports from Human Resources and Finance as to the actual performance of each KMP against the determined criteria. The CEO also considers the audited annual report and other factors in formulating a recommendation as to the outcomes for the 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.

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 is 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.

The number of performance rights issued under the Plans was determined by the Board having regard to the underlying base remuneration of the CEO before the benefit of the performance rights. The Plans give performance rights over ordinary shares in the Group on the terms and conditions as set out in the rules of the Plans.

SUMMARY OF PLANS

The 2011-2014 Plan performance hurdles are earnings per share and total shareholder return. The 2012-2015 Plan performance hurdles are earnings per share and return on funds employed. The details of each Plan are set out below:

LTI Plan 2012 – 2015

Grant Date:	30 October 2012	
Vesting Date:	30 June 2015	
Number of Performance Rights offered:	703,398 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** 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
Vesting Date:	30 June 2014
Number of Performance Rights offered:	714,286 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** 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. 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.

No Long Term Incentive Plan was implemented for the 2013-2016 period. PricewaterhouseCoopers (PwC) provided advice in respect of the performance of Bega Cheese against the hurdles defined for the 2011-2014 Plan. The advice considered the implications of the Plan hurdles having been met after normalisation adjustments including the disposal of Bega Cheese's stake in Warrnambool Cheese and Butter.

The request for this advice was commissioned by the Chair of the NHRC and the report was reviewed and the plan outcomes confirmed by the Chair of the NHRC and the Board was satisfied that the advice was free from any influence. The consideration paid to PwC for this advice was $18,733.

After reviewing the advice, subsequent to year-end and on review of actual outcomes, the Board determined the following outcomes for the 2011-2014 Plan:

	Outcome of FY2011 - 2014 Plan			
Performance hurdle	**Total available Performance Rights**	**Percentage vesting**	**Performance Rights awarded**	**Value per Right at Issue date**
Total Shareholder Return	357,143	100%	357,143	$4.87
Earnings Per Share	357,143	0%	Nil	Not applicable

Bega Cheese Group achieved a TSR outcome of 187% as defined by the 2011-2014 Plan, which placed the Group at the 94th percentile relative to its TSR peer group.

The total maximum value of the Performance Rights that could be expensed in relation to the 2012-2015 Plan is $745,772.

REMUNERATION AT-RISK OUTCOME

EXECUTIVE CHAIRMAN

The Board at the commencement of the financial year determined the remuneration at-risk key performance indicators (KPIs) for the Executive Chairman. 40% of these KPI's relate to the financial performance of the Group. 60% of these KPIs directly align with the executive duties attached to the role of Executive Chairman and relate to outcomes of the Group's strategic plan relating to stakeholder relations, business development and governance. Payment of any remuneration at-risk was subject to a performance gateway of the Group achieving its profit before tax target.

The Executive Chairman achieved 100% of KPIs that aligned with his executive duties. Of the potential 20% allocated to the Group EBITDA target, the Executive Chairman achieved 20%. Of the 20% allocated to the Return On Funds Employed target, the Executive Chairman achieved 20%.

The Board determined that the Executive Chairman exceeded the outcomes of the execution of the strategic plan relating to stakeholder relations, business development governance, and in particular in managing the Group's interest in WCB by delivering shareholder value from the transaction.

The Executive Chairman achieved 100% of his potential at-risk incentive of $106,605. In addition, the Executive Chairman was awarded a discretionary incentive approved by the Board (in the absence of the Executive Chairman) of $143,395 for exceeding the outcomes of the strategic plan. The total incentive awarded was $250,000.

CHIEF EXECUTIVE OFFICER AND OTHER KEY MANAGEMENT PERSONNEL

The at-risk component for each of the other KMP for FY2014 was determined in accordance with the 2014 remuneration at risk plan approved by the Board. Under the 2014 plan, qualifying for any part of the at-risk component of their remuneration was subject to a number of conditions precedent, as detailed below.

Group performance gateways, which included profit, safety, quality and environmental measures, were required to be met before any at-risk payments were authorised. These gateways ensure that:

- at-risk payments were aligned to the Group's 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 that 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. These gateways 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 and environment, all of which are seen as essential components 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 normalised Group EBITDA budget and stretch targets (60%), trade working capital budget and stretch targets (20%), and safety targets (20%).

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

KMP	Group gateways	Individual gateways	Budgeted EBITDA 40%	Stretch EBITDA 20%	OH&S criteria 20%	Working capital budget 10%	Working capital stretch 10%	Total achieved %	Total forfeited %	Total Fixed Rem'n 2014 $	Outcome $
Aidan Coleman	√	√	40%	10%	0%	10%	10%	70%	30%	746,235	224,617
Garth Buttimore	√	√	40%	10%	0%	10%	10%	70%	30%	340,070	71,415
Colin Griffin	√	√	40%	10%	0%	10%	10%	70%	30%	367,611	77,198
Paul van Heerwaarden	√	√	40%	10%	0%	10%	10%	70%	30%	444,302	93,303
David McKinnon	√	√	40%	10%	0%	10%	10%	70%	30%	347,203	72,913
Grattan Smith	√	√	40%	10%	0%	10%	10%	70%	30%	299,024	62,795

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 that have been extracted from the financial statements are as follows:

Key performance indicator		FY2014 Actual	FY2014 Normalised	FY2013 Actual	FY2013 Normalised	FY2012	FY2011	FY2014 vs FY2013 Actual Amount	FY2014 vs FY2013 Actual %	FY2014 vs FY2013 Normalised Amount	FY2014 vs FY2013 Normalised %
Profit before tax	$'000	93,580	42,124	35,349	35,922	27,079	22,090	58,231	165	6,202	17
Profit after tax	$'000	66,055	29,764	25,445	25,846	20,429	21,693	40,610	160	3,918	15
Dividends per share	Cents	8.50	8.50	7.50	7.50	6.50	1.25	1.00	13	1.00	13
Earnings per share	Cents	43.44	19.60	16.76	17.02	12.81	15.65	26.68	159	2.58	15
Total shareholder return	%	92.05	92.05	65.94	65.94	(16.75)	-	26.11	40	26.11	40
KMP total remuneration	$'000	4,879	4,879	4,427	4,427	4,094	2,783	452	10	452	10

Total KMP remuneration for FY2014 has increased 10% over the prior year consistent with improvements in key performance indicators of the Group. The rate of KMP remuneration compared with historical performance should also be reviewed in the light of the following factors:

- during FY2014, the Group indicators of key performance were influenced by key events including the sale of WCB shares and the announcement of the Milk Sustainability and Growth Program as reflected in the normalised columns in the table above
- on becoming a public listed company, the Group strengthened the Board of Directors, increasing the number of Directors from five to eight and introduced 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 in December 2011 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.

DETAILS OF REMUNERATION

The total remuneration outcome for the Group's KMP for each of FY2013 and FY2014 was as follows:

		Short-term employee benefits			Post employment benefits		Share based payments	Total
	Year	Cash Salary and fees	Short Term Incentive (1)	Non-monetary Benefits(2)	Superannuation	Long Service Leave(3)	Equity settled performance right(4)	All amounts $
Executive Chairman								
Barry Irvin (5)	2014	500,471	258,257	-	25,000	14,416	-	798,144
	2013	494,054	66,218	-	25,000	7,013	-	592,285
Executives								
Aidan Coleman	2014	717,613	224,617	-	25,000	16,744	292,634	1,276,608
	2013	695,417	210,830	-	25,000	19,558	188,611	1,139,416
Garth Buttimore	2014	319,938	71,415	-	25,000	5,786	-	422,139
	2013	304,144	67,255	5,292	25,000	3,771	-	405,462
Colin Griffin	2014	337,535	77,198	-	25,000	17,908	-	457,641
	2013	324,764	72,701	6,580	25,000	7,769	-	436,814
Paul van Heerwaarden	2014	417,758	93,303	-	25,000	12,080	-	548,141
	2013	407,730	88,616	-	25,000	12,370	-	533,716
David McKinnon	2014	320,389	72,913	-	25,000	4,846	-	423,148
	2013	310,221	68,508	-	25,000	3,030	-	406,759
Grattan Smith	2014	274,189	62,795	-	25,000	5,976	-	367,960
	2013	248,802	59,081	19,740	25,000	9,374	-	361,997
Total Executive	2014	2,887,893	860,498	-	175,000	77,756	292,634	4,293,781
Remuneration	2013	2,785,132	633,209	31,612	175,000	62,885	188,611	3,876,449
Non-executive Directors								
Richard Cross	2014	69,412	-	-	6,420	-	-	75,832
	2013	66,361	-	-	5,972	-	-	72,333
Joy Linton	2014	83,142	-	-	7,691	-	-	90,833
	2013	79,205	-	-	7,128	-	-	86,333
Peter Margin	2014	95,333	-	-	-	-	-	95,333
	2013	86,438	-	-	2,896	-	-	89,334
Jeff Odgers	2014	69,412	-	-	6,420	-	-	75,832
	2013	66,361	-	-	5,972	-	-	72,333
Richard Parbery	2014	76,277	-	-	7,056	-	-	83,333
	2013	70,948	-	-	6,385	-	-	77,333
Richard Platts	2014	74,905	-	-	6,928	-	-	81,833
	2013	70,031	-	-	6,303	-	-	76,334
Max Roberts	2014	74,905	-	-	6,928	-	-	81,833
	2013	70,031	-	-	6,303	-	-	76,334
Total Non-executive	2014	543,386	-	-	41,443	-	-	584,829
Remuneration	2013	509,375	-	-	40,959	-	-	550,334
Total KMP	2014	3,431,279	860,498	-	216,443	77,756	292,634	4,878,610
	2013	3,294,507	633,209	31,612	215,959	62,885	188,611	4,426,783

(1) *Bonus payments for FY2014 include adjustments made to the final payment of bonus amounts compared with the figure disclosed in the 2013 Annual Report.*

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

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

(4) *Long-term incentive based on the achievement of specified milestones of the CEO's LTI Plan. The amount reflects the expense for each of FY2013 and FY2014 for that year's proportion of the valuation of share rights due to vest in 2014 and 2015.*

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

RELATED PARTY TRANSACTIONS

SHARE HOLDINGS

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

2014 - Numbers of ordinary shares	Balance at start of year	Other changes during the year	Balance at the end of the year
Executive Chairman			
Barry Irvin	3,004,984	-	3,004,984
Executives			
Aidan Coleman*	132,500	(15,000)	117,500
Colin Griffin	221,760	-	221,760
Paul van Heerwaarden	45,000	-	45,000
David McKinnon	5,000	-	5,000
Grattan Smith	26,966	-	26,966
Non-executive Directors			
Richard Cross	297,547	3,000	300,547
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	(200,233)	3,480,014
Max Roberts	1,755,000	(200,000)	1,555,000

*Shares under the LTI Plan 2011-2014 due to vest on 30 June 2014 have not yet been issued.

TRANSACTIONS RELATING TO MILK

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

	CONSOLIDATED	
Items relating to milk including amounts under the Milk Sustainability and Growth Program	**2014** $	**2013** $
Payments made by the Group during the year	9,880,232	8,085,608
Amounts outstanding at year end	1,086,867	603,567

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ROUNDING OF AMOUNTS

The Group is of a kind referred to in 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 30.

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

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

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 32.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Sydney

J.G. Linton

Joy Linton
Independent Director
Melbourne

22 August 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2014, 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.

SJ Bourke
Partner
PricewaterhouseCoopers

Sydney
22 August 2014

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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 Group shareholders.

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

The Board has adopted a number of the new or revised Corporate Governance Principles and Recommendations contained within the 3rd edition of the ASX Corporate Governance Principles and Recommendations from 21 July 2014 as follows:

- Recommendation 1.2 (background checks on directors),
- Recommendation 1.4 (accountability of Company Secretary to the Board),
- Recommendation 2.3 (assessing director independence).

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 Nominations & 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 (RECOMMENDATIONS 1.2 AND 1.3)

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

SECURITY TRADING POLICY

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

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 (Joy Linton and Peter Margin).

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

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

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

This means that contrary to Recommendations 2.1 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 dairy industry generally.

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

NOMINATION & HUMAN RESOURCES COMMITTEE (RECOMMENDATION 2.4)

The NHRC was formed on 29 August 2011 and changed its name from Nomination & Human Resources Committee to Nomination, Remuneration and Human Resources Committee on 1 July 2014. The NHRC's Charter requires the NHRC to consist of at least three members. 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). Richard Cross replaced Barry Irvin from 1 July 2014.

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.

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

BOARD PERFORMANCE EVALUATION (RECOMMENDATIONS 2.5 AND 2.6)

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). The Board has engaged Hay Group to formulate a process for the periodic evaluation of the performance of the Board, Board Committees and individual Directors. It is anticipated that this evaluation process will be undertaken in the financial year ended 30 June 2015. A review was not undertaken in the reporting period covered by this annual report.

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 2014, the proportion of women employed by the Group was as follows:

- Board of Directors 13%
- Management Team 14%
- Bega Cheese Group 27%

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

a) increase representation of women in management positions to 33% (currently 14%) within a 3 – 5 year period

b) establish development plans for all employees reporting to the Executive team by 2015

c) have succession plans in place for Executive team roles with at least one named future successor by 2015

d) current senior female employees to participate in a formal mentoring program

e) achieve a level of employee engagement across the Bega Cheese Group in the high performance zone (greater than 65%) within a 3 – 5 year period.

Bega Cheese Group is making satisfactory progress towards achieving the year 1 diversity objectives. The current level of female representation of women in professional and management positions is 24%. Documented development plans for all employees reporting to the Executive are to be completed and reviewed by Executive team in 2015. The NHRC now reviews succession processes and the succession plan six monthly to ensure that there is appropriate governance and progress to ensure a more diverse workforce. A program for senior female employees to participate in a formal mentoring program will be identified and conducted in FY2015. An Employee Engagement baseline survey across Bega Cheese was conducted in FY2014 The outcome of the engagement survey was consistent with Australian related industry benchmarks, short of the high performance zone target. Action plans to address identified opportunities to increase the level of employee engagement will be developed along with plans to move the business to the high performance zone over the next three to five years. The engagement survey will be conducted again in FY2016 to review and measure progress.

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 (Peter Margin) and one Non-Independent Director (Richard Parbery).

The responsibilities of the ARC include:

a) overseeing the process of financial reporting, internal control, financial and non-financial risk management and compliance and external audit

b) monitoring Bega Cheese's compliance with laws and regulations and its own policies

c) ensuring that the relationship between Bega Cheese and its external auditor remains independent

d) evaluating the adequacy of processes and controls established to identify and manage areas of potential risk.

The ARC 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 will be 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.

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

In accordance with the *Corporations Act 2001*, the lead partner and the review partner of the external auditor will be rotated at least every five years, and is next due in 2018.

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 the 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 the ASX.

PRINCIPLE 7 - RECOGNISE AND MANAGE RISK

RISK MANAGEMENT POLICY AND RISK MANAGEMENT COMMITTEE (RECOMMENDATIONS 7.1, 7.2, 7.3 AND 7.4)

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

The senior management team is responsible for designing and implementing systems to minimise and control risks associated with the Group's operations, and it reports regularly to the ARC and the Board on those risks. The ARC is also responsible for overseeing and assessing the process of financial and non-financial risk management and compliance.

The CEO and Chief Financial Officer (CFO) have reported to the Board on the effectiveness of the Bega Cheese Group's management of its material business risks.

The Board has received assurance from the CEO and the CFO that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8 - REMUNERATE FAIRLY AND RESPONSIBLY

NOMINATIONS & 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 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 2014 $'000	Restated* 2013 $'000
Revenue	5	1,069,392	1,004,387
Cost of sales		(951,117)	(874,344)
Gross profit		**118,275**	**130,043**
Other revenue	5	8,402	7,522
Other income	1a, 5	67,907	1,526
Distribution expense		(42,455)	(44,976)
Marketing expense		(6,129)	(8,030)
Occupancy expense		(3,295)	(2,552)
Administration expense		(43,679)	(41,383)
Finance costs	6	(6,392)	(8,367)
Share of net profit of joint venture	24	946	1,566
Profit before income tax		**93,580**	**35,349**
Income tax expense	7a	(27,525)	(9,904)
Profit for the year		**66,055**	**25,445**
Other comprehensive (expense)/income:			
Items that may be reclassified to profit or loss, net of tax			
Cash flow hedges	18	3,413	(2,868)
Change in the fair value of other financial assets	18	(6,901)	3,289
Total other comprehensive income		**(3,488)**	**421**
Total comprehensive income for the year		**62,567**	**25,866**
Profit attributable to owners of Bega Cheese Limited		66,055	25,445
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		62,567	25,866

		2014 Cents	2013 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:	3		
Basic earnings per share		43.44	16.76
Diluted earnings per share		43.23	16.68

** See note 33(a) for details about restatements due to changes in accounting policies.*
The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 2014 $'000	Restated* 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	28,630	22,698
Trade and other receivables	8	106,660	103,476
Derivative financial instruments	9	2,084	-
Inventories	10	184,167	163,027
Total current assets		**321,541**	**289,201**
Non-current assets			
Other financial assets	9	-	39,028
Property, plant and equipment	11	213,567	209,123
Deferred tax assets	7d	10,907	9,157
Intangible assets	12	1,481	1,580
Investments accounted for using the equity method	24	1,141	1,132
Total non-current assets		**227,096**	**260,020**
Total assets		**548,637**	**549,221**
LIABILITIES			
Current liabilities			
Trade and other payables	13	164,152	142,689
Derivative financial instruments	15	232	7,191
Borrowings	14	588	601
Current tax liabilities		22,425	1,397
Provisions	16	24,773	22,893
Total current liabilities		**212,170**	**174,771**
Non-current liabilities			
Borrowings	14	20,000	110,300
Provisions	16	2,079	2,198
Total non-current liabilities		**22,079**	**112,498**
Total liabilities		**234,249**	**287,269**
Net assets		**314,388**	**261,952**
EQUITY			
Contributed equity	17a	103,642	101,902
Reserves	18a	22,390	25,585
Retained earnings		188,356	134,465
Capital and reserves attributable to owners of Bega Cheese Limited		**314,388**	**261,952**
Total equity		**314,388**	**261,952**

** See note 33(a) for details about restatements due to changes in accounting policies.*
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	Total $'000
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 31)	612	(612)	-	-	-	-	-	-
- Employee share scheme costs (note 31)	-	86	-	-	-	-	-	86
- Share based payments relating to incentives (note 31)	-	189	-	-	-	-	-	189
- Shares issued under Dividend Reinvestment Plan (note 17)	11	-	-	-	-	-	-	11
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(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**
Balance as at 1 July 2013	101,902	518	33,959	(3,226)	6,901	(12,567)	134,465	261,952
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**66,055**	**66,055**
Other comprehensive income for the year	**-**	**-**	**-**	**3,413**	**(6,901)**	**-**	**-**	**(3,488)**
Transactions with owners in their capacity as owners								
- Share based payments relating to incentives (note 31)	-	293	-	-	-	-	-	293
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(12,164)	(12,164)
- Shares issued as consideration net of transaction costs (note 17)	1,740	-	-	-	-	-	-	1,740
Balance as at 30 June 2014	**103,642**	**811**	**33,959**	**187**	**-**	**(12,567)**	**188,356**	**314,388**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2014 $'000	Restated* 2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,102,022	1,024,685
Payments to suppliers and employees inclusive of goods and services tax		(1,049,082)	(953,252)
Interest and other costs of financing paid		(5,327)	(8,115)
Income taxes paid		(7,139)	(3,933)
Net cash inflow from operating activities	**19**	**40,474**	**59,385**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares in listed companies	1a	98,906	-
Proceeds from sale of shares in unlisted companies		-	14
Payments related to corporate activity	1a	(4,357)	-
Interest received		370	168
Payments for property, plant and equipment	11	(27,923)	(27,713)
Payments for shares in listed companies	9	(506)	(2,455)
Proceeds from sale of property, plant and equipment		507	770
Joint venture partnership distributions received		938	1,812
Net cash inflow/(outflow) from investing activities		**67,935**	**(27,404)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	86,612
Repayment of borrowings	1a	(90,313)	(87,413)
Dividends paid to members		(12,164)	(10,619)
Net cash (outflow) from financing activities		**(102,477)**	**(11,420)**
Net increase/(decrease) in cash and cash equivalents		5,932	20,561
Cash and cash equivalents at the beginning of the year		22,698	2,137
Cash and cash equivalents at the end of the year	**19**	**28,630**	**22,698**

** See note 33(a) for details about restatements due to changes in accounting policies.*
The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

HOW NUMBERS ARE CALCULATED

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

a. Sale of WCB shares

In January 2014, Bega Cheese sold its complete holding of 10,521,910 WCB shares to Saputo Inc. Consideration of $9.40 per share was paid by Saputo Inc. to the Company, with Bega Cheese receiving $98,906,000 by the end of February 2014. The cost of the shares sold was $32,851,000 and Bega Cheese incurred transaction costs relating to the corporate activity in FY2014 of $4,030,000 (2013: $573,000), including $918,000 of special purpose debt facility establishment and other finance costs. A summary of the impact of the sale of shares is set out below:

	CONSOLIDATED	
	2014 $'000	**2013** $'000
Sale proceeds	98,906	-
Cost of shares	(32,851)	-
Impact on other income (note 5)	66,055	-
Transaction costs (included in administration costs)	(3,112)	(573)
Impact on EBITDA and EBIT (note 2)	62,943	(573)
Finance costs (note 6)	(918)	-
Impact on profit before income tax	**62,025**	**(573)**
Impact on income tax expense (note 7)	(18,336)	172
Impact on profit for the year	**43,689**	**(401)**

The sale proceeds were used to pay down debt and as a result, banking facilities were reduced in the year as described in note 21.

b. Milk Sustainability and Growth Program

On 25 March 2014, Bega Cheese announced it would allocate up to $25,000,000 to secure a long term and sustainable milk supply. Farmer suppliers were invited to apply to enter the program, with the first payments made in May 2014. Amounts included in the financial statements as an expense are recognised on the basis of constructive obligations existing at 30 June 2014 and are as follows:

	CONSOLIDATED	
	2014 $'000	**2013** $'000
Impact on cost of sales and EBITDA (note 2)	(10,569)	-
Impact on income tax expense (note 7)	3,171	-
Impact on profit for the year	**(7,398)**	-

c. ATO tax audit of Tatura Milk

On 5 March 2014, Tatura Milk received a Position Paper from the ATO which expressed the view that Tatura Milk was not a co-operative within the meaning of Division 9 of Part III of the Income and Assessment Act 1936 during the 2009, 2010 and 2011 tax years and that, consequently, certain deductions claimed would not be allowed and additional tax of $13,341,000 would be payable. Tatura Milk contested this Position Paper and on 18 July 2014, the concerns raised by the ATO were resolved, with the ATO agreeing with the original position taken by Tatura Milk in its tax returns for the relevant years and as a result, no additional tax payment is due. This has no impact on these or previous financial statements as no liabilities had been recognised in respect of the matters in the Position Paper.

d. Impact of current year events on financial performance

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

2. SEGMENT INFORMATION

a. Description of segments

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

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

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

b. Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2014 is as follows:

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
	$'000	$'000	$'000	$'000
Period ending 30 June 2014				
Revenue	685,830	405,457	(21,895)	1,069,392
EBITDA	91,172	31,334	-	122,506
Depreciation, amortisation and impairment	(13,758)	(9,146)	-	(22,904)
EBIT	77,414	22,188	-	99,602
Interest revenue	413	168	(211)	370
Interest expense	(5,241)	(1,362)	211	(6,392)
Profit before income tax	**72,586**	**20,994**	**-**	**93,580**
Income tax expense	(21,639)	(5,886)	-	(27,525)
Profit after tax	**50,947**	**15,108**	**-**	**66,055**
Total segment assets	392,550	234,781	(78,694)	548,637
Total segment liabilities	146,719	89,364	(1,834)	234,249
Purchases of property, plant and equipment	8,347	19,602	(26)	27,923
Impact of current year events on EBITDA (note 1)				
Sale of WCB shares and related costs	62,943	-	-	62,943
Milk Sustainability and Growth	(4,851)	(5,718)	-	(10,569)

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Period ending 30 June 2013 Restated				
Revenue	683,364	336,711	(15,688)	1,004,387
EBITDA	38,068	27,066	-	65,134
Depreciation, amortisation and impairment	(13,307)	(8,366)	-	(21,673)
EBIT	24,761	18,700	-	43,461
Interest revenue	137	118	-	255
Interest expense	(7,238)	(1,129)	-	(8,367)
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	418,579	210,237	(79,595)	549,221
Total segment liabilities	206,623	83,381	(2,735)	287,269
Purchases of property, plant and equipment	11,210	16,503	-	27,713
Impact of current year events on EBITDA (note 1)				
Sale of WCB shares and related costs	(573)	-	-	(573)

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	
	2014 $'000	**Restated 2013** $'000
Sales to external customers in Australia		
Bega Cheese	580,009	585,142
Tatura Milk	164,220	121,033
Total sales to external customers in Australia	744,229	706,175
Sales to external customers in other countries		
Bega Cheese	98,605	88,436
Tatura Milk	226,558	209,776
Total sales to external customers in other countries	325,163	298,212
Total sales to external customers	**1,069,392**	**1,004,387**

Revenues of approximately $506,614,000 (2013: $493,325,000) are concentrated in a small number of external customers. These revenues are attributable to the Bega Cheese segment.

Segment sales by category are as follows:

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Period ending 30 June 2014				
Core dairy ingredients	49,192	284,493	(21,895)	311,790
Consumer packaged dairy products	636,638	-	-	636,638
Nutritionals	-	120,964	-	120,964
Sales by category	**685,830**	**405,457**	**(21,895)**	**1,069,392**
Period ending 30 June 2013 Restated				
Core dairy ingredients	56,079	238,044	(15,688)	278,435
Consumer packaged dairy products	627,285	-	-	627,285
Nutritionals	-	98,667	-	98,667
Sales by category	**683,364**	**336,711**	**(15,688)**	**1,004,387**

i. EBITDA

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

ii. Segment assets and liabilities

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

3. EARNINGS PER SHARE

	CONSOLIDATED	
	2014 Cents	**2013** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	43.44	16.76
Diluted earnings per share	43.23	16.68
	2014 Number	**2013** Number
Weighted average of number of shares used as the denominator in calculating basic earnings per share	152,075,035	151,815,380
Adjustments for calculation of diluted earnings per share:		
Employee share scheme	-	50,670
Contingent employee incentives	708,842	708,842
Shares used as the denominator in calculating diluted earnings per share	152,783,877	152,574,892
	2014 $'000	**2013** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	66,055	25,445

4. DIVIDENDS TO SHAREHOLDERS

	COMPANY	
	Full year 2014	Full year 2013
	$'000	$'000
Recognised amounts:		
2014 Interim dividend of 4.00 cents	6,090	-
2013 Final dividend of 4.00 cents	6,074	-
2013 Interim dividend of 3.50 cents	-	5,325
2012 Final dividend of 3.50 cents	-	5,315
Unrecognised amounts:		
Final dividend of 4.50 cents (2013: 4.00 cents)	6,867	-
Value of the dividend franking account	23,618	6,693

The dividends paid in 2014 and 2013 were fully franked. The 2014 final dividend will be fully franked.

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

5. REVENUE AND OTHER INCOME

Revenue from continuing operations consisted of the following items:

	CONSOLIDATED	
		Restated
	2014	2013
	$'000	$'000
Sales of goods	1,051,671	991,857
Services	17,721	12,530
Total revenue	**1,069,392**	**1,004,387**
Other revenue		
Royalties	5,205	5,232
Sundry contract income	1,492	395
Dividends	1,101	1,000
Rental revenue	604	895
Total other revenue	**8,402**	**7,522**
Other income		
Profit on sale of WCB shares (note 1a)	66,055	-
Interest income	370	255
Other	1,482	1,271
Total other income	**67,907**	**1,526**

6. EXPENSES

	CONSOLIDATED	
		Restated
	2014	2013
	$'000	$'000
Loss/(profit) on disposal of property, plant and equipment	166	(25)
Operating lease minimum lease payments	1,029	722
Increase in inventory provisions	4,987	2,240
Increase of bad and doubtful debts	79	2
Depreciation of non-current assets	22,006	20,690
Impairment of tangible assets	799	983
Impairment of intangible assets	99	-
Employee benefit expense:		
- Defined contribution superannuation expense	10,384	9,731
- Other employee benefits expense	129,801	126,704
Total employee benefit expense	**140,185**	**136,435**
Finance costs:		
- Special purpose debt facility establishment costs (note 1a)	918	-
- Interest on bank loans	4,804	8,080
- Other finance costs	670	287
Total finance costs	**6,392**	**8,367**

7. INCOME TAX

	CONSOLIDATED 2014 $'000	2013 $'000
a. Income tax expense		
Current tax charge	(28,430)	(10,298)
Deferred tax benefit from the origination and reversal of temporary differences	644	206
Adjustments recognised in the current year in relation to current tax of prior years	261	188
Total income tax expense	**(27,525)**	**(9,904)**

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

	2014 $'000	2013 $'000
b. Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax	93,580	35,349
Tax (expense) at the Australian tax rate of 30% (2013 - 30%)	(28,074)	(10,605)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	472	431
Non-deductible expenses	(782)	(458)
Other assessable income	(142)	(128)
Other deductible expenses	296	53
	(156)	(102)
Tax incentives	444	615
Adjustments in respect of prior year	261	188
Total income tax expense	**(27,525)**	**(9,904)**

	CONSOLIDATED 2014 $'000	2013 $'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	2,586	(1,408)
Movement in hedging reserve	(1,480)	1,229
Total amount recognised through other comprehensive income	**1,106**	**(179)**

d. Movements in deferred tax

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Period ending 30 June 2014				
Deferred tax assets				
Borrowing costs	18	(5)	-	13
Doubtful debts	4	24	-	28
Stock provisions	2,051	103	-	2,154
Sundry accrued expenses	1,703	(74)	-	1,629
Employee provisions	7,607	495	-	8,102
Share issue costs	579	(74)	-	505
Total deferred tax assets	11,962	469	-	12,431
Deferred tax (liabilities)				
Fair value investment	(2,586)	-	2,586	-
Property, plant and equipment	(1,461)	201	-	(1,260)
Fair value of derivatives	1,242	(26)	(1,480)	(264)
Total deferred tax (liabilities)	(2,805)	175	1,106	(1,524)
Total net deferred tax asset	**9,157**	**644**	**1,106**	**10,907**
Period ending 30 June 2013				
Deferred tax assets				
Borrowing costs	71	(53)	-	18
Doubtful debts	6	(2)	-	4
Stock provisions	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 net deferred tax asset	**14,070**	**(4,734)**	**(179)**	**9,157**

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
		Restated
	2014	2013
	$'000	$'000
Trade receivables	94,839	93,903
Allowance for impairment of receivables	(84)	(5)
	94,755	93,898
Goods and services tax (GST) receivable	7,094	4,109
Prepayments	966	1,288
Accrued revenue	1,197	1,805
Other debtors	188	98
Advances for vat loans	565	600
Advances to suppliers	1,895	1,678
Total trade and other receivables	**106,660**	**103,476**

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 5.5% (2013: 6.0%). 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 7.8% (2013: 8.0%).

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

9. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Current assets		
Fair value of derivatives	2,084	-
Total current financial assets	2,084	-
Non-current assets		
Available for sale financial assets - listed equity securities	-	39,028
Total non-current financial assets	-	39,028
Total financial assets	**2,084**	**39,028**

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

Listed equity securities consisted of shares in WCB. In the first half of FY2014, Bega Cheese's investment in WCB was increased through the purchase of additional shares costing $3,350,000 (2013: $3,455,000). The purchases included dividend re-investment of $1,101,000 (2013: $1,000,000) and shares purchased by Bega Cheese for $2,249,000 (2013: Nil) under Bega Cheese's Bidder's Statement of 12 September 2013, proposing a merger with WCB. The terms of the Bega Cheese offer, which were updated on 14 November 2013, were 1.5 Bega Cheese shares and $2.00 cash for each WCB share purchased by Bega Cheese. 253,148 WCB shares were purchased by Bega Cheese under the offer, bringing Bega Cheese's total holding of WCB shares to 10,521,910 shares. All shares in WCB were sold in January 2014, with further details set out in note 1a.

10. INVENTORIES

	CONSOLIDATED 2014 $'000	CONSOLIDATED Restated 2013 $'000
Raw materials	117,272	111,236
Finished goods	66,895	51,791
Carrying amount of inventories at lower of cost or net realisable value	**184,167**	**163,027**

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

11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED 2014 $'000	CONSOLIDATED Restated 2013 $'000
Land and buildings		
At cost	98,290	93,568
Accumulated depreciation	(30,237)	(27,185)
Total land and buildings	**68,053**	**66,383**
Plant and equipment		
At cost	373,902	345,636
Accumulated depreciation	(234,365)	(216,712)
Total plant and equipment	**139,537**	**128,924**
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,856)
Total leased assets	**-**	**-**
Construction in progress	**5,977**	**13,816**
Total property, plant and equipment	**213,567**	**209,123**

11. 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	Total $'000
Consolidated				
Period ending 30 June 2014				
Balance at the beginning of the period	13,816	66,383	128,924	209,123
Capital expenditure	27,923	-	-	27,923
Disposals	(500)	-	(174)	(674)
Depreciation	-	(3,023)	(18,983)	(22,006)
Impairment	(100)	(62)	(637)	(799)
Transfers	(35,162)	4,755	30,407	-
Balance at the end of the financial period	5,977	68,053	139,537	213,567
Period ending 30 June 2013 Restated				
Balance at the beginning of the period	12,662	63,343	127,824	203,829
Capital expenditure	27,713	-	-	27,713
Disposals	(600)	(24)	(122)	(746)
Depreciation	-	(2,812)	(17,878)	(20,690)
Impairment	(983)	-	-	(983)
Transfers	(24,976)	5,876	19,100	-
Balance at the end of the financial period	13,816	66,383	128,924	209,123

12. INTANGIBLE ASSETS

	CONSOLIDATED	
	2014 $'000	**2013** $'000
Brand	405	405
Water rights	1,076	1,175
Total intangible assets	**1,481**	**1,580**
Movement in intangible assets		
Balance at the beginning of the financial period	1,580	1,580
Impairment of water rights	(99)	-
Balance at the end of the financial period	1,481	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 and are attributable to the Bega Cheese segment. Impairment was tested by reference to third party market valuation based on recent transactions and related data.

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2014 $'000	CONSOLIDATED Restated 2013 $'000
Trade payables	139,732	119,111
Deferred income	1,477	1,244
Accrued charges and sundry creditors	22,943	22,334
Total trade and other payables	**164,152**	**142,689**

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

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

14. BORROWINGS

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Current - at amortised cost		
Secured term loans	588	601
Total current borrowings	588	601
Non-current - at amortised cost		
Secured term loans	20,000	110,300
Total non-current borrowings	20,000	110,300
Total borrowings	**20,588**	**110,901**

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Current liabilities		
Fair value of derivatives	232	7,191
Total current derivatives	232	7,191
Total derivatives	**232**	**7,191**

For further details on derivatives, see note 21.

16. PROVISIONS

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Current liabilities		
Employee benefits	24,773	22,893
Total current provisions	24,773	22,893
Non-current liabilities		
Employee benefits	2,079	2,198
Total non-current provisions	2,079	2,198
Total provisions	**26,852**	**25,091**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The amount of the provision presented as current of $24,773,000 is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months:

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Current leave obligations expected to be settled after 12 months	8,008	7,427

17. SHARE CAPITAL

a. Share capital

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Ordinary shares fully paid	**103,642**	**101,902**

b. Movement in share capital value and number of shares

During November to December 2013, Bega Cheese issued 379,752 shares at a value of $1,740,000 net of costs as partial consideration for the purchase of additional shares in WCB. For further details of the purchase of WCB shares, see note 9.

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 31. These movements are set out in the following table:

	Ordinary Shares	Ordinary Shares
	Number '000	$'000
Shares on issue at 1 July 2012	151,497	101,279
Shares issued under dividend re-investment plan	6	11
Shares issued under employee share scheme	363	612
Ordinary shares on issue at 30 June 2013	151,866	101,902
Ordinary shares on issue at 1 July 2013	151,866	101,902
Shares issued as purchase consideration for other financial assets, net of costs	380	1,740
Ordinary shares on issue at 30 June 2014	152,246	103,642

18. RESERVES

a. Reserves

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Share based payment reserve	811	518
Capital profits reserve	33,959	33,959
Hedging reserve	187	(3,226)
Fair value reserve	-	6,901
Transactions with non-controlling interest reserve	(12,567)	(12,567)
Total reserves	**22,390**	**25,585**

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. For further details, see note 31 and the Remuneration Report.

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

The hedging reserve is used to record gains or losses on hedging instruments (cash flow hedges) that are recognised directly in equity, as described in note 33.

The fair value reserve is used to record fair value movements on investments that are available-for-sale.

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

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	CONSOLIDATED	
	2014	Restated 2013
	$'000	$'000
a. Reconciliation of cash and cash equivalents		
Cash and cash equivalents	28,630	22,698
Balance per statement of cash flow	**28,630**	**22,698**
b. Reconciliation of profit for the period to net cash flows from operating activities		
Profit after income tax	66,055	25,445
Adjustments for non-cash items:		
Depreciation of non-current assets	22,006	20,690
Loss on sale of property, plant and equipment	166	(25)
Impairment of tangible assets	799	983
Impairment of intangible assets	99	-
Non-cash employee benefit expenses - share based payments	293	275
Profit on sale of investments held for resale net of payments related to corporate activity	(61,704)	-
Fair value adjustment to derivatives	(4,111)	30
Interest income received and receivable	(370)	(255)
Dividend receivable	(1,101)	(1,000)
Share of net profit on joint venture	(946)	(1,566)
Changes in operating assets and liabilities:		
(Increase) / decrease in assets:		
Trade and other debtors and GST recoverable	(3,506)	(5,898)
Inventories	(21,140)	(638)
Prepayments	322	(183)
Deferred tax asset	(642)	4,913
Increase / (decrease) in liabilities:		
Trade and other payables	21,463	13,937
Provision for income taxes payable	21,030	1,236
Changes in provisions	1,761	1,441
Net cash flow from operating activities	**40,474**	**59,385**
c. Non-cash investing activity		
Dividend received from WCB re-invested to purchase additional WCB shares	1,101	1,000
Issue of shares in Bega Cheese as partial consideration for purchase of WCB shares	1,740	-

RISK

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 7 – income tax, note 8 – trade and other receivables, note 10 – inventories and note 13 – trade and other payables.

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management 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 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 that has overall responsibility for risk management. The Board also approves policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments, and investment of excess liquidity.

a. Market risk

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

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 Group also makes purchases including ingredients and packaging that exposes it to movements in exchange rates of US dollar and Euro. The risk is measured using sensitivity analysis and cash flow forecasting. Forward contracts are used to manage these risks.

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

	CONSOLIDATED					
	USD	JPY	EUR	USD	JPY	EUR
	2014	2014	2014	2013	2013	2013
	'000	'000	'000	'000	'000	'000
Trade receivables	**21,639**	**-**	**-**	**21,368**	**-**	**-**
Trade payables	**-**	**-**	**1,688**	**-**	**-**	**-**
Forward exchange contracts						
Buy foreign currency (fair value hedges)	10,935	-	2,067	-	-	333
Sell foreign currency (cash flow hedges)	51,540	2,458	-	59,845	1,797	-
Sell foreign currency (fair value hedges)	26,431	-	-	15,904	-	-

a. Market risk (cont.)

Group sensitivity

This is based on the financial instruments held on 30 June 2014, 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 2013 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The Group sensitivity is detailed in the following table:

	CONSOLIDATED	
	2014	**2013**
	$'000	$'000
EQUITY		
AUD$ strengthens 10% - increase / (decrease)	(3,446)	(4,320)
AUD$ weakens 10% - (decrease) / increase	4,212	5,280

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 low level of borrowings and changed facility agreements, the use of interest rate swaps is currently under review by the Group. All borrowings were denominated in Australian dollars during 2014 and 2013.

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

	CONSOLIDATED	
	2014	**2013**
	$'000	$'000
Fixed rate instruments		
Assets		
Vat and supplier loans	2,460	2,278
Liabilities		
Bank overdrafts and loans	(588)	(601)
Variable rate instruments		
Assets		
Cash and cash equivalents	28,630	22,698
Liabilities		
Bank overdrafts and loans	(20,000)	(110,300)
Net exposure to interest rate risk on variable rate instruments	**8,630**	**(87,602)**

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

Group sensitivity

At 30 June 2014, 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 $(60,000) (lower)/higher (2013: $776,000) higher/(lower) for the Group's net profit.

Price risk

The Group was exposed to equity securities price risk during FY2014 and FY2013. This arose from the investment held by the Group in WCB shares. As the Group no longer holds equity securities due to the sale of WCB shares in the year, there is no current price risk.

b. Credit risk

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

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

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
		Restated
	2014	2013
	$'000	$'000
Cash and cash equivalents	28,630	22,698
Trade receivables	94,755	94,557
Accrued revenue	1,197	1,805
Other receivables	7,282	4,336
Vat loans to farmers	565	600
Advances to farmers	1,895	1,678
Fair value derivatives	2,084	-
Total credit risk exposure	**136,408**	**125,674**

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

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

	CONSOLIDATED	
		Restated
	2014	2013
	$'000	$'000
Not past due	83,429	79,799
Past due over 0-30 days	8,626	9,082
Past due over 30 days	2,784	5,022
Trade receivables at 30 June	**94,839**	**93,903**

For details of provisions held against trade receivables, see note 8. All impaired balances are more than 60 days overdue. The amounts past due relate to a number of customers where there is no history of default to the Group.

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 2014 $'000	CONSOLIDATED 2013 $'000
Undrawn facilities expiring within one year	50,000	-
Undrawn facilities expiring beyond one year	27,412	87,099
Drawn facilities	20,588	110,901
Total facilities	**98,000**	**198,000**
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	39,000	80,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	1,000	60,000
Inventory Facility	50,000	50,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	1,500	1,500
Total facilities	**98,000**	**198,000**

During the prior year, the Group established a syndicated facility structure. The syndicate includes the following two financial institutions; Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Australia Branch) and Westpac Banking Corporation. As a result of the cash received on the sale of WCB shares, Bega Cheese reduced certain borrowing facilities, which is reflected in the above table. The current agreement includes a 3.5 Year Revolving Cash Advance Facility of $39m due to expire on 31 January 2017 and 5 Year Revolving Cash Advance Facility of $1m, which is due to expire on 31 July 2018. The Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese and Tatura Milk.

In addition to the Syndicated Facility, Bega Cheese and Tatura Milk continue to operate three separate banking facilities. The Inventory Facility is due to expire on 7 January 2015. The Overdraft Facility and the Vat Financing Facility are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 23. The Overdraft Facility is due to expire on 1 July 2015, whilst the Vat Facility is a revolving facility.

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

a) the interest cover ratio must be equal or greater than 3.5 times

b) the leverage ratio must not be greater than 5 times and

c) shareholder funds must be equal or greater than $200,000,000

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

Maturities of financial liabilities

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

Consolidated	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2014						
Non derivatives						
Secured bank loans	(1,417)	(845)	(20,513)	-	(22,775)	(20,588)
Trade and other payables	(164,152)	-	-	-	(164,152)	(164,152)
Derivative financial assets and liabilities						
Inflows	90,238	-	-	-	90,238	93,452
Outflows	(87,788)	-	-	-	(87,788)	(91,600)
Total financial liabilities	**(163,119)**	**(845)**	**(20,513)**	**-**	**(184,477)**	**(182,888)**

	0-12 months	1-2 years	2-5 years	>5 years	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2013 Restated						
Non derivatives						
Secured bank loans	(5,266)	(27,907)	(60,513)	(35,186)	(128,872)	(110,901)
Trade and other payables	(142,689)	-	-	-	(142,689)	(142,689)
Derivatives financial assets and liabilities						
Inflows	77,879	-	-	-	77,879	61,756
Outflows	(84,847)	-	-	-	(84,847)	(67,443)
Total financial liabilities	**(154,923)**	**(27,907)**	**(60,513)**	**(35,186)**	**(278,529)**	**(259,277)**

d. Fair value estimation

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

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

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

Consolidated	Level 1 $'000	Level 2 $'000	Total $'000
Period ending 30 June 2014			
Assets			
Derivatives used for hedging	-	2,084	2,084
Total assets	**-**	**2,084**	**2,084**
Liabilities			
Derivatives used for hedging	-	(232)	(232)
Total liabilities	**-**	**(232)**	**(232)**
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)**

22. CAPITAL RISK MANAGEMENT

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

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

GROUP STRUCTURE

23. PARENT ENTITY FINANCIAL INFORMATION

a. Summary financial information

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

	BEGA CHEESE	
	2014	**Restated 2013**
	$'000	$'000
Current assets	194,174	177,684
Total assets	392,550	418,579
Current liabilities	(145,389)	(117,187)
Total liabilities	(146,719)	(206,623)
Net assets	245,831	211,956
Shareholder's equity		
Issued capital of parent entity	104,212	102,472
Reserves		
Share based payment reserve	811	518
Capital profits reserve	32,565	32,565
Fair value reserve	-	6,939
Retained earnings	108,243	69,462
Total equity	245,831	211,956
Profit after tax for the year	50,947	12,601
Total comprehensive income	44,008	16,146

In arriving at the consolidated contributed equity of the Group, issue costs of $570,000 (2013: $570,000) are deducted from the issued capital of the Parent Entity.

b. Guarantees entered into by parent entity

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

c. Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013 except as disclosed in note 26.

d. Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2014, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $315,000 (2013: $2,365,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. SUBSIDIARY AND JOINT VENTURE

	Country of Incorporation	Class of Shares	2014 Holding %	2013 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. Prior to this, Bega Cheese held approximately 70% of the total Tatura Milk shares issued.

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	
	2014	2013
	$'000	$'000
Share of net profit of joint venture	946	1,566
Investments accounted for using the equity method	1,141	1,132

From 1 July 2013, the Group adopted new accounting standards which impacted the presentation of the joint venture in the accounts. For further details, see note 33.

25. CLOSED GROUP DISCLOSURE

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

UNRECOGNISED ITEMS

26. 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 during the year or since 30 June 2014 which result in the need to disclose or raise contingent liabilities of the Group as at 30 June 2014.

27. COMMITMENTS

a. Capital commitments

	CONSOLIDATED	
	2014	**2013**
	$'000	$'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	1,312	5,085

b. Lease commitments - Group as lessee

Non-cancellable operating leases consist of the following types:

	CONSOLIDATED	
	2014	**2013**
	$'000	$'000
Equipment	2,095	2,193
Motor vehicles	99	41
Landing and buildings	1,058	79
Total lease commitments	**3,252**	**2,313**

The equipment leases have terms of up to 5 years and no option to extend. The motor vehicle leases typically run for a period of one to five years with an option to renew the lease after this date. The leases for land and buildings are due to expire in April 2018 with an option to extend further.

The lease commitments are set out in the following table:

	CONSOLIDATED	
	2014	**2013**
	$'000	$'000
Within one year	1,021	707
Between one and five years	2,231	1,606
Total lease commitments	**3,252**	**2,313**

28. SUBSEQUENT EVENT

On 22 August 2014, the Directors declared a final fully franked dividend of 4.50 cents per share, which represents a distribution of $6,867,000.

OTHER INFORMATION

29. RELATED PARTY TRANSACTIONS

a. Terms and conditions of related party transactions

Transactions between the Group and related parties are conducted on normal commercial terms and conditions.

b. Related party transactions with Group entities

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

	CONSOLIDATED	
	2014	**2013**
	$	$
Sales made to CCFA	9,052,860	8,627,000
Rent paid by CCFA to Bega Cheese	212,784	214,512

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

c. Key Management Personnel remuneration

	CONSOLIDATED	
	2014	**2013**
	$	$
Short-term employee benefits	4,291,777	3,959,328
Post employment benefits	216,443	215,959
Long term employee benefits	370,390	251,496
Total employee benefits	**4,878,610**	**4,426,783**

Further details of Key Management Personnel remuneration are disclosed in the Remuneration Report.

30. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2014	2013
	$	$
Audit Services		
PwC Australia - Audit and review of financial statements	392,500	385,500
Non-PwC Australia firm - Audit and review of financial statements of the joint venture	9,375	11,000
Non-audit Services		
PwC Australia - Other services	241,343	166,440
Non-PwC Australia firm - Other services	141,264	125,155

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

31. 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 allocated 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. 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 (2014: $Nil).

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

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Shares issued under the Retention Award		
Brought forward	-	649
Expense	-	86
Total expense of shares offered under the Retention Award	-	735
Adjustment to reflect issue price of shares	-	(123)
Total shares issued under the Retention Award	**-**	**612**

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

During the year, an expense of $293,000 (2013: $189,000) was incurred in relation to the potential issue of shares under the Bega Cheese Limited Long Term Incentive Plans (Plans). The Plans were established in 2012 and are designed to provide long-term incentives for the CEO to deliver shareholder returns. Under the Plans, the CEO is granted share rights which only vest if certain performances standards are met.

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	
	2014	**2013**
	$'000	$'000
Entitlements due under employee share schemes		
Retention Award	-	86
Expense in relation to Long Term Incentive Plan	293	189
Total employee share scheme expense	**293**	**275**

32. RECLASSIFICATION OF OTHER ITEMS

The classification of certain items was reviewed due to changing arrangements with customers, resulting in a number of reclassifications in order to present information in a more relevant way.

The elimination of balances between the Company and CCFA has also been adjusted, following the change to the equity method. This impacted the Consolidated Statement of Comprehensive Income and the Consolidated Balance Sheet.

There was no impact on profit for the year or net assets from these reclassifications. The presentation has been corrected by restating each of the affected financial statement line items for the prior period as summarised in note 33a.

33. 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 2014. The Directors have the power to amend and re-issue the financial statements.

a. Basis of preparation

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

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

The Group has applied the following standards and amendments for the first time in its annual reporting period commencing after 1 July 2013.

i. AASB 11 Joint Arrangements and AASB 128 Investments in Associates and Joint Ventures.

   Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Bega Cheese Limited has assessed the nature of its joint arrangement with CCFA and determined it is a joint venture.

   Under the Group's previous accounting policy, the interest in its joint venture was accounted for using the proportionate consolidation method, whereby the Group combined its share of the jointly controlled entity's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. This method is no longer permitted under AASB 11. Instead, interests in joint ventures must now be accounted for using the equity method. Under the equity method, the interest in CCFA is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

   When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

   Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary, to ensure consistency with the policies adopted by the Group.

As required under AASB 11, the change in policy has been applied retrospectively and, as consequence, adjustments were recognised in the balance sheet as of 1 July 2012.

The tables below show the effect of the change in accounting policy on individual line items in each of the financial statements. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

The Group recognised its investment in the joint venture at the beginning of the earliest period presented (1 July 2012) as the total of the carrying amounts of the assets and liabilities previously proportionately consolidated, including any goodwill arising from the acquisition of the investment. This is the deemed cost of the Group's investments in the joint venture for applying equity accounting. As a consequence, the change in policy did not have any impact on the Group's net assets, items of equity, profit after tax and earnings per share.

	Prior year restatement			
	30 June 2013 (Previously stated)	Joint arrangements Increase/ (Decrease)	Other Items Increase/ (Decrease)	30 June 2013 (Restated)
Income statement (extracts)	$'000	$'000	$'000	$'000
Revenue	1,010,086	(15,490)	9,791	1,004,387
Cost of sales	(874,961)	11,022	(10,405)	(874,344)
Other revenue	7,077	-	445	7,522
Other income	1,583	(57)	-	1,526
Distribution expense	(44,255)	1,676	(2,397)	(44,976)
Marketing expense	(9,733)	729	974	(8,030)
Occupancy expense	(2,552)	-	-	(2,552)
Administration expense	(43,449)	554	1,512	(41,383)
Finance costs	(8,447)	-	80	(8,367)
Share of net profit of joint venture	-	1,566	-	1,566
Profit before income tax	**35,349**	**-**	**-**	**35,349**
Statement of cash flows (extracts)				
Cash flows from operating activities				
Receipts from customers inclusive of goods and services tax	1,040,955	(16,270)	-	1,024,685
Payments to suppliers and employees inclusive of goods and services tax	(966,921)	13,669	-	(953,252)
Net cash inflow/(outflow) from operating activities	61,986	(2,601)	-	59,385
Cash flows from investing activities		-	-	
Interest received	224	(56)	-	168
Dividends received	1,000	-	(1,000)	-
Payments for property, plant and equipment	(27,810)	97	-	(27,713)
Payments for shares in listed companies	(3,455)	-	1,000	(2,455)
Joint venture partnership distributions received	-	1,812	-	1,812
Net cash (outflow) from investing activities	(29,257)	1,853	-	(27,404)
Net increase/(decrease) in cash and cash equivalents	21,309	(748)	-	20,561
Cash and cash equivalents at the beginning of the year	2,926	(789)	-	2,137
Cash and cash equivalents at the end of the year	**24,235**	**(1,537)**	**-**	**22,698**

Balance sheet (extracts)	30 June 2013 (Previously stated) $'000	Joint arrangements Increase/ (Decrease) $'000	Other Items Increase/ (Decrease) $'000	30 June 2013 (Restated) $'000
	Prior year restatement			
Current assets				
Cash and cash equivalents	24,235	(1,537)	-	22,698
Trade and other receivables	104,303	(1,662)	835	103,476
Inventories	163,277	(250)	-	163,027
Total current assets	291,815	(3,449)	835	289,201
Non-current assets				
Property, plant and equipment	209,892	(769)	-	209,123
Investments accounted for using the equity method	-	1,132	-	1,132
Total non-current assets	259,657	363	-	260,020
Total assets	551,472	(3,086)	835	549,221
Current liabilities				
Trade and other payables	144,940	(3,086)	835	142,689
Total current liabilities	177,022	(3,086)	835	174,771
Total liabilities	289,520	(3,086)	835	287,269
Net assets	**261,952**	**-**	**-**	**261,952**

ii. 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*. This has resulted in disclosures relating to transactions with KMPs being moved from the notes to the financial statements to the Remuneration Report.

None of the other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

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 2013.

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 20.

b. Principles of consolidation

Joint venture

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

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2014 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 entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

c. Segment reporting

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

d. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

e. Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Sale of goods and disposal of assets

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

Services

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

Royalties and rental revenue

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

Interest income

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

Dividends

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

f. Government grants

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

Government grants relating to 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 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 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

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

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

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

h. Leases

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

i. Business combinations

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

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

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

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

j. Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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 that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

k. Cash and cash equivalents

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

l. Trade receivables

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

Collectability of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (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 expense'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expense in profit or loss.

m. Inventories

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

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

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

n. Investments and other financial assets

Classification

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

Loans and receivables

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

Available-for-sale financial assets

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

Recognition, derecognition and measurement

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. 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.

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.

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 profit or loss.

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

o. Derivatives and hedging activities

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

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or 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 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 any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

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

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

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

q. Intangible assets

Brand names

Brand names recognised by the Group have an indefinite useful life and are not amortised. Each reporting period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life for the assets. Such assets are tested for impairment in accordance with the policy stated in note 12.

Water rights

Water Rights are valued at least annually at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 12.

r. Trade and other payables

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

s. Borrowings

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

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

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

t. Provisions

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

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

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

u. Employee benefits

Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave 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

In previous years, 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 31. 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 Long Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted at the beginning of the scheme, which includes any market performance conditions and the impact of any non-vesting conditions 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.

v. Contributed equity

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

w. Dividends

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

x. Earnings per share

i. Basic earnings per share

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

ii. Diluted earnings per share

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

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

y. Research and development costs

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

z. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

aa. Rounding of amounts

The Company is of a kind referred to in 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.

ab. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations as applicable to the Group is set out below.

i. AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2017)
AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2017 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 Revenue from contracts with customers (effective for annual reporting periods commencing on or after 1 January 2017)
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. While the AASB has not yet issued an equivalent standard, they are expected to do so in the second half of 2014. The Group has not yet considered the impact of the new rules on its revenue recognition policies. It will undertake a detailed assessment 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.

ac. Parent entity financial information

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

i. Investments in subsidiaries and joint venture entities

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

ii. Dividend income

Dividends receivable from subsidiaries are included in Bega Cheese's income statement. In the Group consolidated financial statements, these are eliminated, along with other intercompany transactions.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 38 to 76 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 2014 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 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

Note 33 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
Sydney

JG Linton

Joy Linton
Independent Director
Melbourne

22 August 2014

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

Report on the financial report

We have audited the accompanying financial report of Bega Cheese Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for 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 33, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.
The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Auditor's opinion
In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 33.

Report on the Remuneration Report
We have audited the remuneration report included in pages 20 to 30 of the directors' report for the year ended 30 June 2014.
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 2014, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

SJ Bourke
Partner

Sydney
22 August 2014

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2014:

DISTRIBUTION OF EQUITY SECURITIES

Holding	Number
1 – 1,000	2,287
1,001 – 5,000	1,765
5,001 – 10,000	378
10,001 – 100,000	466
100,001 and over	184
	5,080

There were 552 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
New Zealand Milk (Australasia) Pty Ltd	13,755,543	9.04%
Karara Capital Limited	5,941,391	3.90%
RE Platts	3,480,014	2.29%
Aljo Pastoral Pty Ltd	3,004,984	1.97%
Jerang Pty Ltd	2,664,012	1.75%
Platypus Asset Management Pty Ltd	2,613,463	1.72%
Perpetual Limited	2,556,299	1.68%
JL & KD Kimber	2,400,066	1.58%
Australian Foundation Investment Company Limited	2,202,800	1.45%
R & R Apps Pty Ltd	1,823,972	1.20%
P C Shearer	1,781,408	1.17%
J V Toohey	1,664,046	1.09%
SG Hiscock & Company Limited	1,627,274	1.07%
M & C Moffitt	1,591,064	1.05%
S & M Roberts	1,555,000	1.02%
NG & NG Pearce	1,536,888	1.01%
PC, CL & AL Collett	1,521,116	1.00%
Jelgowry Pty Ltd	1,480,150	0.97%
Vanguard Investments Australia Limited	1,459,030	0.96%
M & S Guthrey	1,420,156	0.93%
	56,078,676	**36.85%**

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	201,250	15 August 2014
Ordinary shares issued to Tatura Milk employees	68,500	1 May 2015
Total shares	**269,750**	

CORPORATE DIRECTORY

ADVISORS

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

Solicitors
Addisons
Level 12, 60 Carrington Street
Sydney NSW 2000

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

Westpac Banking Corporation
360 Collins Street, Melbourne VIC 3000

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

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

DIRECTORS & COMPANY SECRETARIES

Directors
Barry Irvin
Executive Chairman

Richard Cross
Director

Joy Linton
Independent Director

Peter Margin
Independent Director

Jeff Odgers
Director

Richard Parbery
Director

Richard Platts
Director

Max Roberts
Director

Company Secretaries
Brett Kelly
Colin Griffin

EXECUTIVE TEAM

Aidan Coleman
Chief Executive Officer

Garth Buttimore
General Manager Operations

Colin Griffin
Chief Financial Officer

Paul van Heerwaarden
General Manager
Sales & Marketing

David McKinnon
General Manager
Human Resources

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.

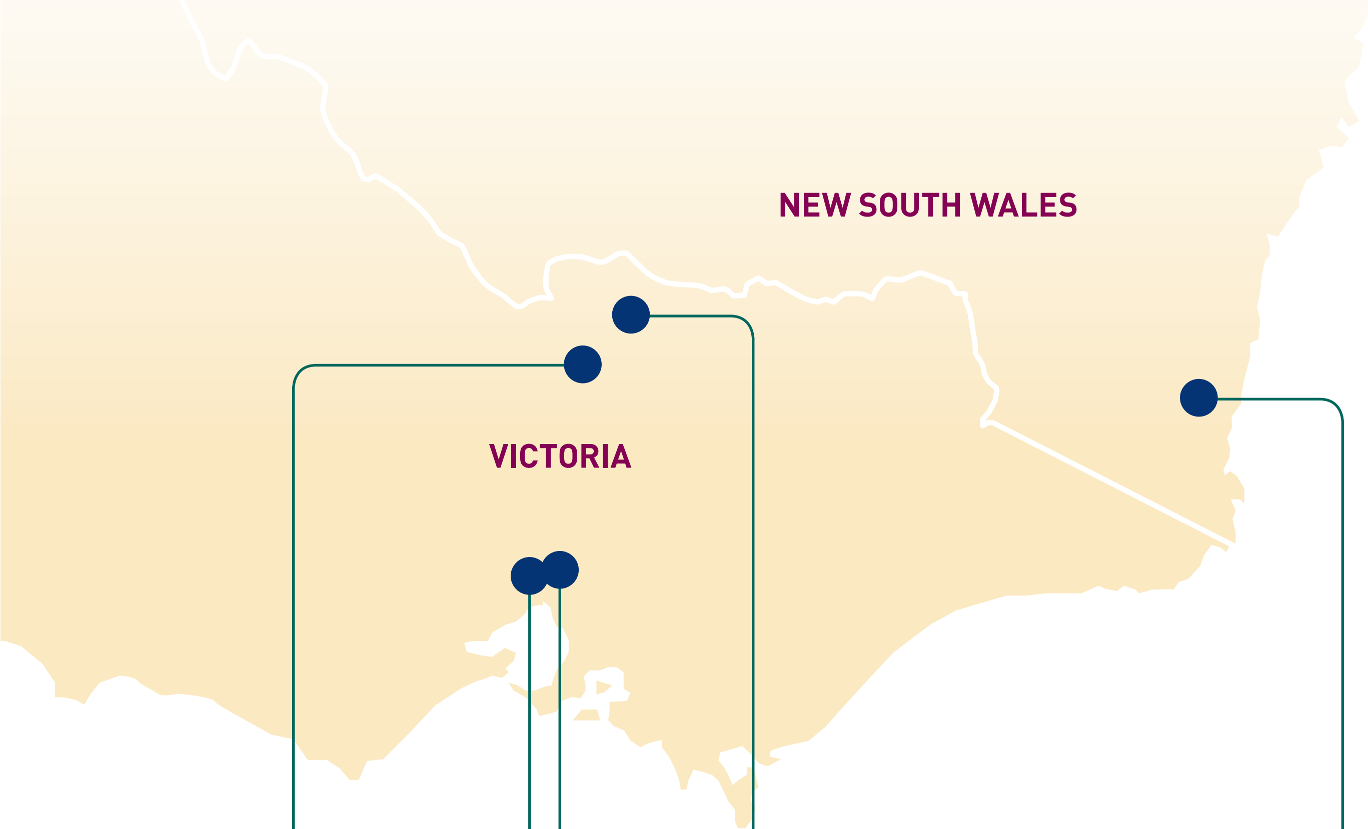
Capitol Chilled Foods (Australia) Pty Ltd
Capitol Chilled Foods (Australia) Pty Ltd (joint venture or CCFA) is the 25% joint venture of Bega Cheese.

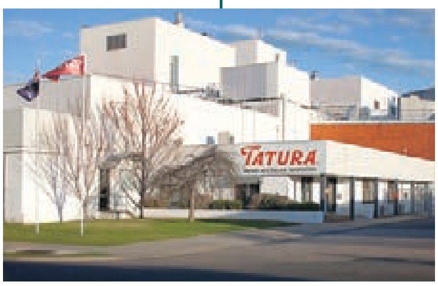
Principal Registered Office
23-45 Ridge Street
Bega NSW 2550
T: 02 6491 7777
E: admin@begacheese.com.au
W: www.begacheese.com.au

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 2014 and is referred to as FY2014

OUR SITES





TATURA
236 Hogan Street
Tatura VIC 3616 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

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

DERRIMUT
11 Benn Court,
Derrimut VIC 3030 Australia

COBURG
10-16 Allenby Street
Coburg VIC 3058 Australia

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

Bega