

# Creating a better tomorrow

Sustainability  
Report 2017



# About this report

This report addresses our performance in relation to the material sustainability impacts of Bega Cheese during the financial year 1 July 2016 to 30 June 2017 (FY2017).

The content is structured to first outline the way we do business, including our aspirations, values and approach to sustainability; how we identify and prioritise material issues; our engagement with stakeholders; and governance and risk management. The following section then reports on our management approach and performance related to the significant material areas identified.

Unless otherwise stated, all references to a year are FY2017. All references to the Bega Cheese Group refer to Bega Cheese Limited (ACN 008 358 503) and its subsidiary Tatura Milk Industries Limited. Neither the 25% joint venture Capitol Chilled Foods (Australia) Pty Ltd or the 50% joint venture Bemore Partnership are included in this report.

The information in this report covers all of our operating sites: Bega, Strathmerton, Tatura, Derrimut, Coburg and Port Melbourne.

While this report relates to FY2017, it should be noted that the Bega Cheese Group acquired Mondelēz International's Australia and New Zealand grocery and cheese business, Mondelēz Grocery Business, which has since been renamed Bega Foods. The acquisition was announced on 19 January 2017 and took effect on 4 July 2017. Sustainability information and data associated with Bega Foods will be included in future reports as we integrate Bega Foods as a business unit into the Bega Cheese Group.

This report has been prepared in accordance with the GRI Standards (core option). A copy of the GRI Content Index with links to relevant sections of the document is provided on page 65.

We produce a range of reports to meet the evolving needs of our wide range of stakeholders. Our 2017 Annual Report provides a summary of Bega Cheese's operations and financial statements for FY2017 and is available at [www.begacheese.com.au](http://www.begacheese.com.au)

The Bega Cheese Group's approach to audit and assurance is outlined in our 2017 Annual Report.

External assurance has not been sought regarding this report. Our approach to external assurance of sustainability reports is being developed and will be highlighted in our next report.

Where there are changes to previously reported data, this is explained in notes where the restated information appears. Restatements can occur due to significant changes such as acquisitions, or a change in the nature of measurement methods.

## Tell us what you think

We will continue to evolve and improve our reporting over the coming years and welcome feedback on this report.

Please address any questions, comments or suggestions to [bega.admin@begacheese.com.au](mailto:bega.admin@begacheese.com.au)

Previous reports are also available at [www.begacheese.com.au](http://www.begacheese.com.au)



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# FY2017 in review

## Message from the CEO and Executive Chairman

Welcome to our third annual sustainability report. Our values, strategy and the capacity to adapt in a changing world are the measures that the Bega Cheese Group seek to be judged by, and were particularly evident in all that we achieved in FY2017.

Bega Cheese was founded as a collective of rural dairy farmers who were keen to make a difference to their local industry and community. From humble beginnings we have evolved into a business that today operates in a highly competitive, global marketplace.

The ability to remain connected to our heritage and culture remains part of our success, and it is important that we adjust to change, stay true to our values, and continue to recognise the expectations of all of our stakeholders.

Late in FY2016, a global drop in dairy product prices created significant turmoil in the Australian industry. In FY2017 the industry felt the effects of this disruption, with farmers struggling to absorb lower returns. We are proud to say that the Bega Cheese Group did not cut its price paid to farmers, opening FY2017 with one of the leading prices in the industry.

Following this, the infant formula industry was also challenged with change and uncertainty. We proactively addressed these dynamic changes in the infant formula market, as Australian and other global suppliers addressed regulatory changes in China.

We are pleased to report revenue increased by 3% to \$1.2 billion. The normalised EBITDA of \$70.6 million was 7% ahead of the prior year and the Net Profit After Tax of \$30.3 million was 4% ahead of the prior year.

During FY2017 two significant corporate activities were undertaken or announced. In January 2017 (effective 4 July 2017) we announced the purchase of the Mondelēz Grocery Business which brings in the iconic Vegemite brand and a range of other products including peanut butter, salad dressings,

dips, sauces and cheese. In late February 2017 we formed a long-term strategic alliance and sale of infant nutritional assets to Mead Johnson Nutrition Asia Pacific.

Integrating the Mondelēz Grocery Business will be a key priority for our business. This presents both challenges and opportunities for sustainability including a focus on human health and nutrition, promoting healthy eating, and ensuring ingredients are sourced as ethically and sustainably as possible.

### Making a difference

Our success relies on the trust and confidence of our customers, suppliers, shareholders, staff and the community. For this reason, we want to outline our most material impacts on sustainability and how we are making a difference in addressing those impacts – both locally on the ground, and in contributing globally to the UN Sustainable Development Goals.

This year, we have consolidated our performance in key environmental and social areas and have continued to improve our safety performance.

We have successfully completed over 55 external food safety audits and maintained all our quality certifications, and are currently developing an Ethical Sourcing policy framework to ensure minimum standards in food safety, quality, sustainability and labour practices among suppliers.

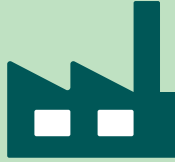
We have reduced our Total Recordable Injury Frequency Rate by 15%. We also worked closely with our dairy suppliers to improve safety on farms by partnering to provide training in the use of quad bikes, involved in many avoidable fatalities on Australian farms in recent years.



## Our sustainability highlights FY2017



**109 projects completed on farms under the Bega Environmental Management program**



**Achieved our annual energy and greenhouse gas emissions intensity targets in manufacturing**



**15% improvement to Total Recordable Injury Frequency Rate**



**46.7% reduction in chemical oxygen demand (COD) to wastewater at our Lagoon Street site in Bega**



**94% of milk suppliers completed an on-farm Sustainability Assessment**



**Successfully completed all food safety audits**

Over many years the Bega Cheese Group has also supported it's local communities, both with direct contributions to regional charities and through specific fundraising events. In Northern Victoria Bega organises and contributes to the "Tatura 200", a charity bike ride that attracts in excess of 350 participants each year, and in South East NSW Bega stages an industry event that brings together suppliers, competitors and local business. Proceeds from these events are contributed to a different local charity each year.

We continue to work directly with our farmer suppliers in reducing greenhouse gas emissions through better dietary management, and improving animal welfare outcomes through better calf rearing practices.

Bega Cheese completed over 100 on-farm projects under the Bega Environmental Management program and 94% of our milk suppliers completed an on-farm sustainability assessment during the year.

As a result of investing \$25.3 million in plant and equipment this year, we achieved our energy and greenhouse gas intensity reduction targets in manufacturing. In addition, a focus on trade waste resulted in a 28% overall reduction in the level of trade waste discharge from the company's manufacturing facilities.

We recognise that there is more work to be done to advance our sustainability strategy. In coming reports we will be providing more information on our evolving sustainability program and its outcomes. We operate in a highly competitive and changing market and continue to take important strategic steps in the evolution of our company – and in our approach to sustainability.



*B.A. Irvin*

**Barry Irvin**  
Executive Chairman  
Bega Cheese Group



*Paul van Heerwaarden*

**Paul van Heerwaarden**  
CEO  
Bega Cheese Group







# Our business





# About Bega Cheese

## **Bega Cheese was founded in 1899 by dairy farmers across the unspoiled pastures of the Bega Valley.**

Bega Cheese is a publicly listed company on the Australian Securities Exchange (ASX) – ASX Code: BGA) – with 8,734 shareholders.

For over 100 years, Bega Cheese has been fulfilling the dairy needs of Australia. Established as a collective of rural dairy farmers in 1899, we have been bringing quality cheese from the Bega Valley onto Australian platters ever since.

From these humble beginnings, Bega Cheese has grown into a \$1.2 billion corporate entity employing 1,600 people. We have become a publicly listed company on the Australian Securities Exchange (ASX Code: BGA) with 8,734 shareholders. And we have stretched beyond the pastures of the Bega Valley, operating in seven sites across New South Wales and Victoria, and receiving milk from over 420 supplier farms.

This growth is accompanied by an expansion beyond dairy products. Our aspiration is to be a Great Australian Food Company. We have recently taken large strides towards this transformation by acquiring Mondelēz International's Australia and New Zealand grocery and cheese business – Mondelēz Grocery Business. Now known as Bega Foods, this includes iconic brands and products such as Vegemite and peanut butter.

This expansion into non-dairy product food categories does not supersede our continued dairy interests – it expands and builds on our core activities. The ability to stay connected with our heritage and culture remains a cornerstone of the Bega Cheese Group's success. Our growth has been driven by strong support for the dairy farming families that supply us, quality products and services, and personal engagement with our customers. These principles that define Bega Cheese will continue as we evolve into the Great Australian Food Company.

Following the purchase of the Mondelēz Grocery Business we are in the process of reviewing our vision.

The cornerstone of our success is a strong focus on the needs of our customers, a record of superior shareholder returns, excellent supplier relationships, a safe and energised workforce and long-term community support and engagement.

## **Our values**

**Thinking Customer, Valuing Supplier** – we support our customers and suppliers to be successful, and we are passionate about understanding and delivering on their expectations.

**Supporting Each Other** – we make a positive contribution to our people and to our communities, and we help each other by working as a team to make a difference.

**Safety Always** – we make safety our first priority, and we look after each other's safety.

**Right First Time** – we do it once, we do it right, and we help each other to look for better ways to do things.

**Taking Ownership** – we take pride in what we achieve together, and we act with integrity and honesty, respect each other and talk up.

**Being Agile** – we look to the past with a sense of pride, and to the future with a sense of excitement, and we expect success and celebrate it.



## Taking Ownership

We take pride in what we achieve together, and we act with integrity and honesty, respect each other and talk up.



# Our sites





## Domestic

Bega Cheese has six sites in south-eastern Australia and a corporate office in Port Melbourne. A seventh site, 1 Vegemite Way in Port Melbourne, was added with the acquisition of the Mondelēz Grocery Business and this site will be included in future reporting cycles. Cheese, butter and whey powder are manufactured at the Lagoon Street site in Bega. Consumer products are processed and packaged at our sites at Ridge Street in Bega and Strathmerton in Victoria. Cheese and liquid whey products are manufactured at the Coburg site in Victoria. Tatura Milk Industries (TMI) is a wholly owned subsidiary of Bega Cheese which produces cream cheese, butter, a range of dairy powders and nutritional powders, and bio-nutrients at facilities in Tatura and Derrimut in Victoria.

In the Australian market, the Bega brand is a household name. Our domestic customers include the majority of major retailers, including Aldi, Coles, Woolworths, and Metcash. Business-to-business customers include Fonterra, Kraft, Mondelēz, Bellamy's and Blackmores. Food Service and Quick Service Restaurants are also key customers.

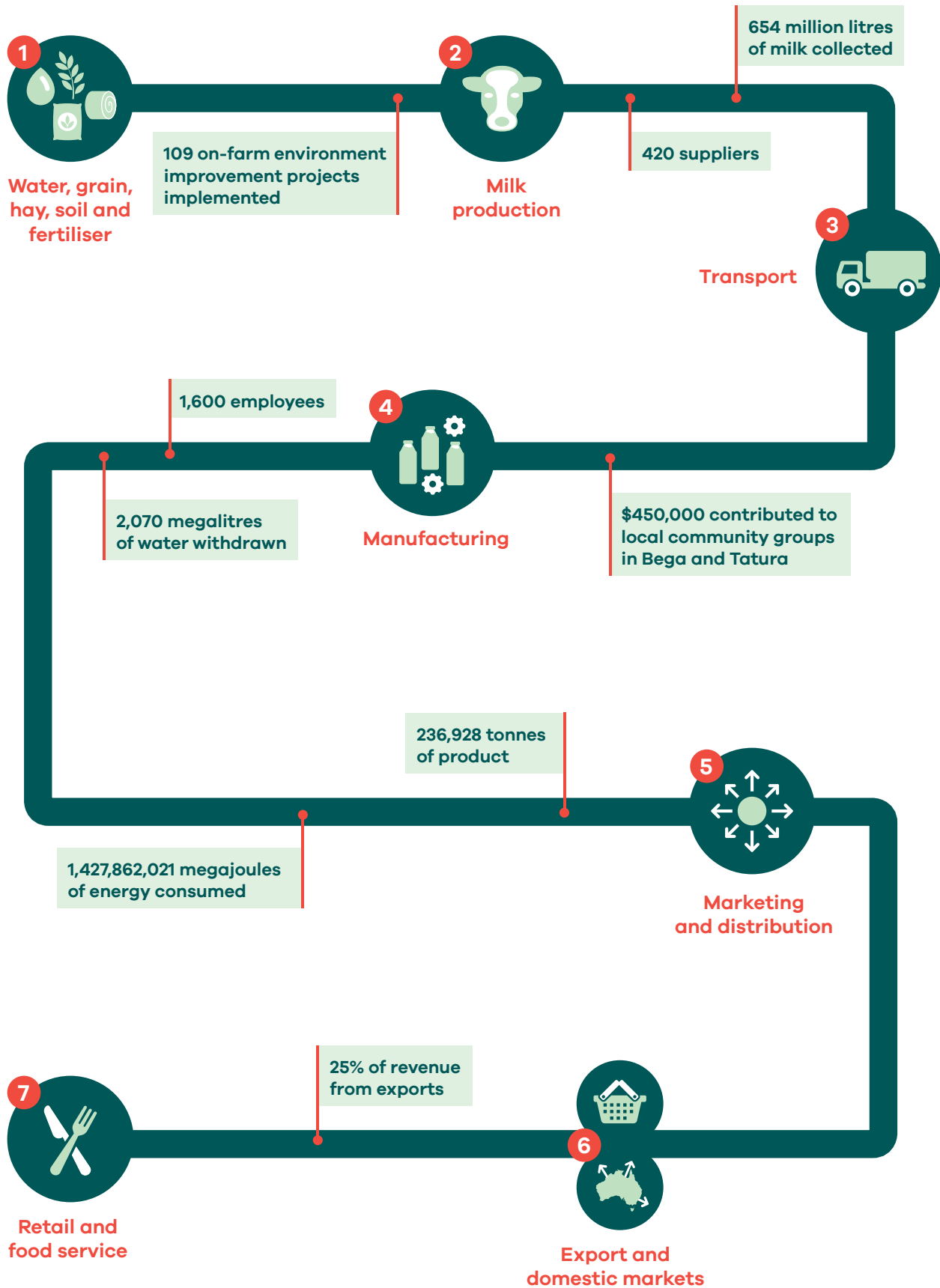
## International

Our brands and products are gaining popularity worldwide with growing exports.

Beyond our extensive Australian market, Bega Cheese maintains a broad international customer base, including manufacturers, retailers and distributor agents in markets in South East Asia, China, Japan, Korea, Britain, France and the Middle East. We also have an increasing number of nutritional, food service and ingredient customers in China.



## Our value chain: how Bega Cheese creates value













# Our approach to sustainability





# Our approach to sustainability

## Sustainability is central to Bega Cheese becoming the Great Australian Food Company.

As we diversify our products, our impact also becomes more diverse. Bega Cheese aims to develop a broader role as a steward for sustainable development in the food industry.

Our Strategic Plan 2017-2021 continues to position sustainability as one of our six major pillars. There are a number of key areas within our sustainability strategy: governance, environmental compliance, community, resource efficiency, climate change, product stewardship and sustainable sourcing.

In the wider sustainability context, Bega Cheese contributes to the Australian Dairy Industry Sustainability Framework and its targets, and this informs our overall approach to sustainability.

We are also active participants in various industry sustainability initiatives including the Dairy Manufacturers Sustainability Council (DMSC), the Australian Packaging Covenant (APC) and the Australian Food and Grocery Council (AFGC).

We are members of many other industry associations, including: the Australian Dairy Industry Council; the Australian Dairy Products Federation Incorporated; the Australian Farm Institute; the Dairy Industry Association Australia (NSW and Victoria); the Dairy Research Foundation; the Infant Nutritional Council Board; the Gardiner Foundation; the NSW Farmers Association; and the NSW Irrigators Council.

To help evaluate our sustainability performance we monitor global environment, social and governance (ESG) indices and continually seek to improve our measures against them.

We have been rated by Morgan Stanley Capital International (MSCI), achieving a BBB rating in 2015, 2016 and 2017. Our sustainability disclosure has been reviewed by the Australian Council of Superannuation Investors (ACSI) and been assessed as a "Detailed" level and above the ASX200 average and the food, beverage and staples retailing sector average.





## Governance and risk management

Sustainability is important to everyone at Bega Cheese. We will continue to embed sustainable practice as a part of our culture. Our approach to managing sustainability is an essential part of our Code of Conduct.

Our Code of Conduct outlines the responsibilities that employees, contractors, suppliers, consultants and directors have to the company. These include high standards of business ethics, fair employment, safety, fair business practices, stakeholder engagement and environmental management. Our employees complete a Code of Conduct Declaration and complete refresher training every 24 months to ensure awareness of any changes. The Code of Conduct also outlines the company's grievance procedures and provides an independent hotline to report any breaches. More information on the Code of Conduct can be found on our website.<sup>1</sup>

Our Code of Conduct outlines our expectations of suppliers in the areas of fair work, safe work conditions, and environmental sustainability.

Contractor compliance with relevant aspects of the Code of Conduct is managed as part of their engagement and is maintained through a web-based training and compliance tool which is completed annually.

Our Board consists of eight directors who oversee the sustainability activities of Bega Cheese. Board sub-committees monitor performance and provide advice and assistance to the Board. Management provides the environmental compliance reports to the Audit and Risk Committee on a quarterly basis.

The Company Secretary also reports at least annually to the Audit and Risk Committee on compliance with our risk management policy and the soundness and effectiveness of the Bega Cheese risk framework. Our approach to risk is based on AS/NZS ISO 31000:2009. Managers are responsible for compliance with risk management policies and processes and ensuring that key controls are in place and effective.

More information on our corporate governance is available on our website.<sup>2</sup>

Bega Cheese Directors occupy positions on the governance bodies of a number of key industry associations. Barry Irvin, Executive Chairman, was a Director of the Gardiner Foundation until October 2017. Jeff Odgers, Bega Cheese Director, was also a Director of Dairy Australia and became their Chairman in November 2017. Richard Cross, Director is also currently the Chair of Murray Dairy. Further details on Bega Cheese Directors and their other current Directorships are available on pages 18-19 of our Annual Report.

## Bega Cheese's Governance



<sup>1</sup> [www.begacheese.com.au/investors/corporate-governance](http://www.begacheese.com.au/investors/corporate-governance)

<sup>2</sup> [www.begacheese.com.au/investors/corporate-governance](http://www.begacheese.com.au/investors/corporate-governance)



Directors clockwise from left:  
Peter Margin, Richard Platts, Max Roberts, Jeff Odgers, Richard Parbery, Barry Irvin, Raelene Murphy, Richard Cross.



Our material issues

This year Bega Cheese conducted a materiality assessment to determine key sustainability issues and inform the priorities of our Strategic Plan 2017-2021 and the content of our sustainability report. A materiality assessment ensures that our approach is responsive to both customer and community interests as well as the impacts of our business on broader sustainable development.

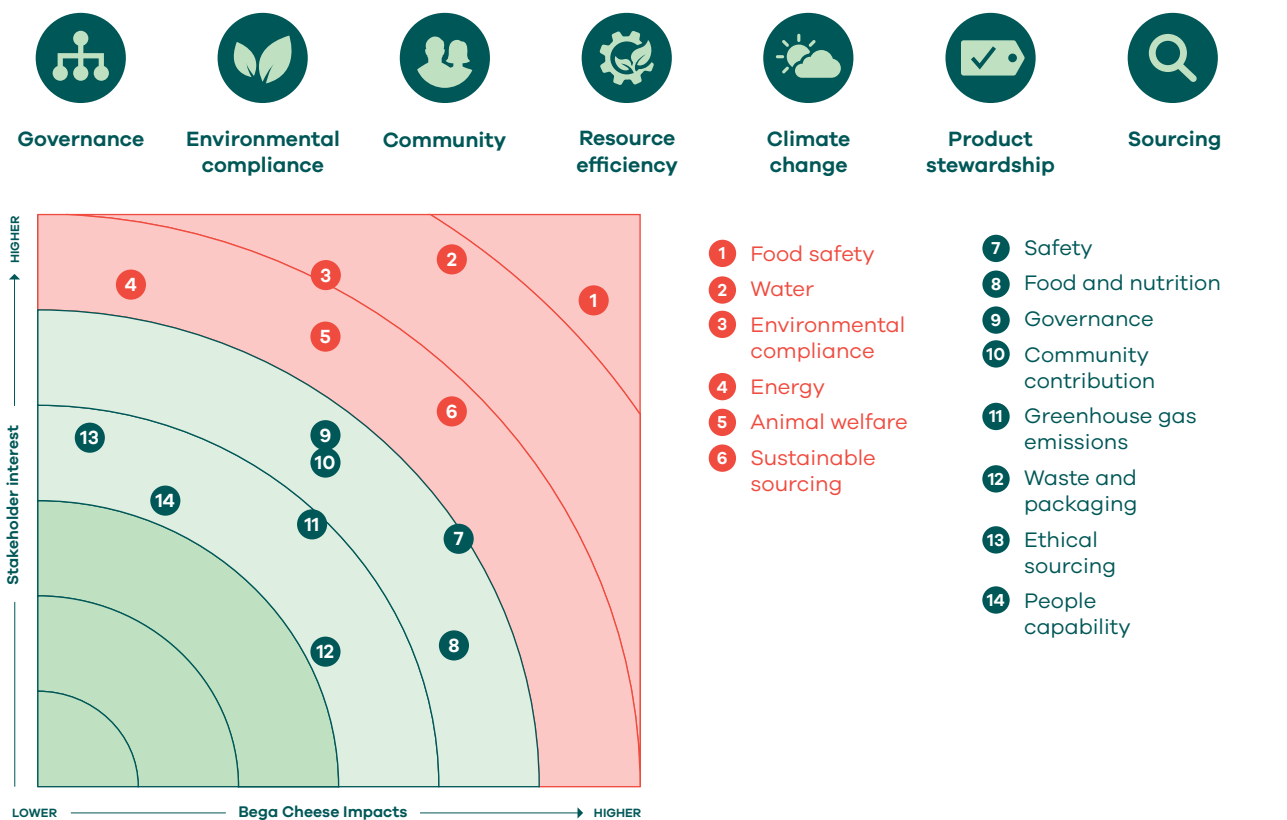
The result of our four-phase materiality assessment is presented in our 2017 Materiality matrix (see below) and has been used to create our 2017 Materiality index (see next page). We consider sustainability issues to be material if we have significant impact on those issues or if they are of primary concern to our stakeholders.

Many of these issues, in turn, also have a significant impact on our ability to deliver on our business strategy. We have also considered how we both impact and contribute to the 17 United Nations Sustainable Development Goals (UN SDGs) through our most material issues. These are presented in the scope of material issues and demonstrated in case studies throughout the report using the UN SDG icons.

Our approach to materiality

- Phase 1: Identify**
- Initial desktop assessment of Bega Cheese operating context and key documents
  - Sources include: company risk register, World Economic Forum Global Risks Report 2017, peer sustainability reports, industry frameworks (e.g. Australian Dairy Sustainability Framework), GRI Topics for Sectors and SASB Agricultural Products Sustainability Accounting Standard
- Phase 2: Prioritise**
- Interviews with 7 key internal stakeholders and 6 external stakeholders including customers, communities local to our operations, ESG analysts and banks
  - Ranking of material issues by internal and external stakeholders
- Phase 3: Validate**
- Material issues identified and prioritised in phases 1 and 2 presented to meeting of Bega Cheese Executive Team
- Phase 4: Review**
- We reviewed our 2016 report against: other ASX companies of similar size, best practice sustainability reporting criteria and the requirements of the GRI Standards 2016
  - Dedicated stakeholder engagement will be undertaken in 2018 to help further review and refine our reporting efforts. These activities will be reported next year.

2017 Materiality matrix



## Bega Cheese materiality issues

## 2017 Materiality index

Material issue	Scope	Where impacts occur	UN SDG* – our impacts, our contributions
<b>Food safety</b>	All aspects of food safety including policy, compliance, complaints, feedback and recalls	Customers (large and small) and consumers	
<b>Water</b>	Approach to water security and water management including consumption, intensity, recycling and effluent management in manufacturing but also farm water security	Suppliers (milk in particular) and manufacturing suppliers	
<b>Sustainable sourcing</b>	Local spending on suppliers, support to farmers for practice improvement, access to capital and environmental performance  Sustainable sourcing of non-dairy inputs	Milk suppliers Vegetable oil suppliers	 
<b>Environmental compliance</b>	Compliance with environmental licences, local complaints and responses	Local communities	
<b>Energy</b>	Energy security and costs, energy consumption and intensity and use of renewable energy	Manufacturing sites	 
<b>Animal welfare</b>	Policy, performance and transparency at farm level on performance against animal welfare standards	Milk suppliers	
<b>Food and nutrition</b>	Ingredient reviews, position on human health and nutrition opportunities	Customers, consumers and regulators	
<b>Safety</b>	Health and safety of workers at manufacturing sites, on-farm safety practices and chain of compliance for transport related activities	Manufacturing sites	
<b>Greenhouse gas emissions</b>	Scope 1 and 2 greenhouse gas emissions from manufacturing and approach to Scope 3 emissions	Manufacturing sites and milk suppliers	
<b>Governance</b>	Internal mechanisms for identifying, managing and responding to sustainability. Board membership and responsibility for sustainability risks	All Bega Cheese Group entities, subsidiaries and joint ventures	
<b>Community contribution</b>	Contribution to local communities including local employment, local sourcing where practical, tax transparency and charitable giving	Local communities and suppliers	
<b>Waste and packaging</b>	Waste generation, types of packaging, recycled content and rates of recycling	Manufacturing sites	
<b>Ethical sourcing</b>	Performance of suppliers in areas such as fair work practices on farm and human rights such as anti-discrimination and child or forced labour	Milk suppliers	
<b>People capability</b>	Training, education and development of staff	All manufacturing sites	



## Involving stakeholders

We work with a range of stakeholders and build relationships with people who are both interested in and impacted by our business activities.

Our Code of Conduct recognises the need for the Bega Cheese Group to observe the highest standards of corporate practice and business conduct. This applies to our interaction with our customers, shareholders, employees, suppliers and business partners, as well as the community and environment in which we operate.

We share a mutual dependency with our stakeholders. This includes our current business operations, our legal and contractual responsibilities, our impacts, stakeholder influence on activities and our engagement objectives. The Bega Cheese Group pro-actively engages with stakeholders to ensure they have opportunities to participate in key processes and discussions in relation to our sustainability activities.

Formal stakeholder engagement has typically focused on fulfilling our responsibility as a publicly listed company. Engagement with community and partners has been less structured and has occurred at key milestones – for example, during contract renewals and negotiation of supply and services agreements, and when advising the community of significant activities at operating sites.

This year, we conducted interviews with key external stakeholders, including customers and our local communities, to identify and prioritise issues specifically for the development of our sustainability strategy and this report.

Bega Cheese will build on and expand this work to further refine the issues which are of greatest concern to our valued stakeholders.

## Involving our stakeholders

Stakeholders	Interests	How we engaged in FY2017
<b>Employees</b> All employees of the Bega Cheese Group and our contractors	<ul style="list-style-type: none"> <li>• Quality, safety, environment improvement</li> <li>• Training and career development</li> <li>• Attracting and retaining talent</li> </ul>	<ul style="list-style-type: none"> <li>• Safety culture survey</li> <li>• Safety briefings and tool box talks</li> <li>• Site consultative forums (including OH&amp;S committees)</li> <li>• Intranet and communication screens</li> <li>• Employee annual performance reviews</li> <li>• Personal development plans</li> <li>• Induction training</li> <li>• Quality refresher training</li> <li>• Key performance indicators</li> </ul>
<b>Communities</b> Local communities where the Bega Cheese Group and its suppliers operate including neighbours and local councils	<ul style="list-style-type: none"> <li>• Land management and impacts on water catchments from milk suppliers</li> <li>• Local environmental impacts from manufacturing (e.g. noise and odour)</li> <li>• Regional employment opportunities and support for farming communities</li> </ul>	<ul style="list-style-type: none"> <li>• State and regional business networks</li> <li>• Community interest groups (e.g. Cussen Park, Tatura)</li> <li>• Contribution to local infrastructure (e.g. North Bega sewage system)</li> <li>• Sponsorships and direct donations to charities</li> <li>• Hosting local students to undertake research projects</li> <li>• Direct personal response to issues raised directly by the local community</li> <li>• Flyers and notifications of company activities</li> </ul>

Stakeholders	Interests	How we engaged in FY2017
<b>Milk suppliers</b>	<ul style="list-style-type: none"> <li>Developing and maintaining relationships</li> </ul>	<ul style="list-style-type: none"> <li>Focused topic-specific meetings with farmers (e.g. presentation of soil analysis results and discussions on land management practices)</li> <li>Quad bike safety training day</li> <li>Visits and audits on farm</li> <li>Re-issue of expectation manuals to milk suppliers</li> <li>Farmer information evenings</li> </ul>
<b>Other suppliers and business partners</b>	<ul style="list-style-type: none"> <li>Developing and maintaining relationships</li> </ul>	<ul style="list-style-type: none"> <li>Meetings and regular reviews</li> <li>Supplier visits and audits</li> <li>Issue management support and troubleshooting</li> </ul>
<b>Shareholders</b> Institutional and retail shareholders	<ul style="list-style-type: none"> <li>Return on investment</li> <li>Acquisition integration</li> <li>Growth and strategy</li> <li>New product development</li> </ul>	<ul style="list-style-type: none"> <li>Results presentations</li> <li>ASX announcements and press releases</li> <li>Annual General Meeting</li> <li>Road shows</li> <li>ESG investment surveys</li> </ul>
<b>Customers and consumers</b>	<ul style="list-style-type: none"> <li>Compliance with specifications</li> <li>Food safety and quality</li> <li>Profitability</li> </ul>	<ul style="list-style-type: none"> <li>Responses to questionnaires</li> <li>Customer visits and audits</li> <li>Meetings and reviews</li> <li>Monthly reports</li> </ul>
<b>Governments and regulators</b>	<ul style="list-style-type: none"> <li>Regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>Input to requests for information</li> <li>Participation in system audits</li> <li>Strategic meetings with regulators</li> <li>Dairy Export Industry Consultative Committee</li> <li>Statutory reporting</li> <li>Site inspections and audits</li> </ul>
<b>Industry associations</b>	<ul style="list-style-type: none"> <li>Knowledge sharing</li> <li>Lobbying</li> <li>Benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>Dairy Manufacturers Sustainability Council</li> <li>Australian Dairy Products Federation</li> <li>Australian Dairy Industry Council</li> <li>Infant Nutritional Council Board and standing committees</li> <li>Work groups on specific items and issues</li> <li>General information days</li> </ul>
<b>Certification bodies and NGOs</b>	<ul style="list-style-type: none"> <li>Compliance with regulations and management systems</li> </ul>	<ul style="list-style-type: none"> <li>Meetings and reviews</li> <li>Audits</li> <li>Australian Packaging Covenant</li> </ul>







# Looking after our supply chain





# Looking after our supply chain

As a food company our supply chain is vast, spanning from farm to factory and right to the storefront.

The greatest environmental, social and economic impacts occur in our supply chain, due to its size and complexity. Sustainability is a central pillar of our strategy, and we see it as our responsibility to ensure sustainable practice across our supply chain.

Our future success, and our sustainability record, depends on the strength of our relationships with suppliers and their management practices. Our Code of Conduct outlines our expectations of suppliers in the areas of fair work, safe work conditions, and environmental sustainability.

The Bega Cheese Group's Quality Management System includes a comprehensive vendor assurance program that is designed to audit and assess supplier practices and policies to ensure compliance with Bega Cheese requirements. When assessing a potential supplier's compliance with our standards and requirements, Bega Cheese will also review the supplier's third-party certification. We continue to improve the robustness of our supplier assessments, and are vigilant in monitoring our supply chain compliance.

We value transparency and are accountable to our stakeholders. Information on our supply chain is shared with our customers through collaborative platforms including Sedex.

As part of the Bega Cheese Corporate Responsibility Principles, our suppliers must comply with key policies all times while contracted, including:

- Child Labour and Forced Labour
- Health and Safety
- Working Hours
- Wages and Benefits
- Harassment and Abuse
- Non Discrimination
- Disciplinary actions
- Fraud and Corruption

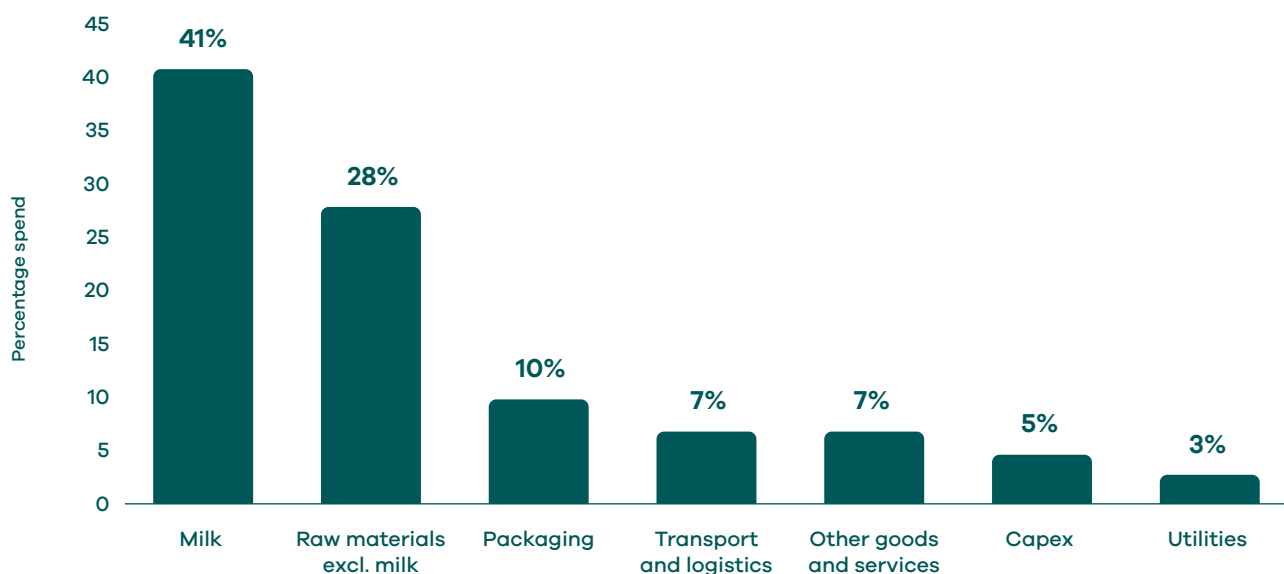
In addition Bega Cheese is planning to develop and implement an ethical sourcing policy framework to guide decisions on entering supplier agreements. The framework will be supported by a web-based tool for pre-screening suppliers. This will ensure that we only engage suppliers that meet appropriate standards in food safety, quality, sustainability and labour practices. These new ethical sourcing tools and policies will play a significant part in integrating the recently acquired Mondelēz Grocery Business as Bega Foods during the coming year.

The Bega Cheese Group has a supply chain team that manages core processes in relation to raw ingredients and packaging materials used to produce and distribute Bega's wide range of products.

This team looks at the full range of supply chain processes, from the raw material right through to customer despatch, both domestically and internationally.

Dairy remains a core part of our business, and dairy farmers are a significant part of our supply chain. There are over 420 dairy farms situated in south-eastern Australia that supply the Bega Cheese Group. This year we collected 654 million litres of milk from our direct suppliers.

## Bega Cheese's supply chain expenditure



## Sustainable sourcing

Bega Cheese was established in 1899 as a collective of rural dairy farmers. In keeping with our heritage, we continue to strongly support our dairy suppliers. In 2014, we launched the Milk Sustainability and Growth Program designed to encourage investment by farmer suppliers in farm sustainability and milk growth. Our investment of \$25 million into the program leveraged over \$50 million of investment in on-farm initiatives. Through our program, and encouraging sustainable farm practice, our dairy suppliers were able to weather difficult conditions experienced across much of Victoria, and we maintained our milk intake. This program ended in December 2017.

Our Bega Environmental Management System (BEMS) has now been operating for over 10 years and continues to produce positive environmental outcomes on and around the dairy farm. BEMS is a voluntary continuous improvement program that identifies priority issues in natural resource management including: effluent management, irrigation, nutrient management, native vegetation and waterways, soil management, greenhouse gas emissions, water and energy, chemicals, waste and pests. BEMS supports the Australian Dairy Industry Sustainability Framework targets of excluding stock from waterways, developing nutrient management plans, automating irrigation, and managing land for conservation and biodiversity.

Suppliers participating in the Milk Sustainability and Growth Program received an incentive to participate and complete a BEMS Sustainability Assessment. In turn, suppliers were expected to improve their on-farm sustainability. Over 94% of our milk suppliers across New South Wales and Victoria have completed a Sustainability Assessment, giving us a good understanding of where the focus needs to be to support the long-term sustainability of our milk supply base.

This year we have focused on:

- inducting new suppliers into our quality assurance program
- finalising the three-year Sustainability and Growth program (ended December 2017)
- addressing key sustainability issues including greenhouse gas emissions, farm safety and water security.





## Reducing emissions from dairy cows

Reducing greenhouse gas emissions is a priority for the Australian dairy industry and Bega Cheese. On dairy farms the biggest source of emissions is through the digestion process of cows. Emissions can be reduced by managing a cows' diet. Through our agricultural support program we seek to help farmers ensure optimum nutrition.

With funding support of \$266,000 this year from the Federal Department of Agriculture and Water Resources, we have been able to provide over 60 of our suppliers in northern Victoria with one-on-one herd nutritional support.<sup>3</sup>

Helping suppliers understand their cows' energy requirements and develop a diet that fully meets their nutritional needs is reaping strong benefits. Farms that have participated in the program have found their dairy cows are healthier, producing more milk and delivering better milk quality.

Research indicates these cows are also likely to be producing less methane, making this a win for both the environment and farm productivity.

<sup>3</sup> As part of a multi-year support package of \$850,000

### UN Sustainable Development Goals

13 CLIMATE ACTION





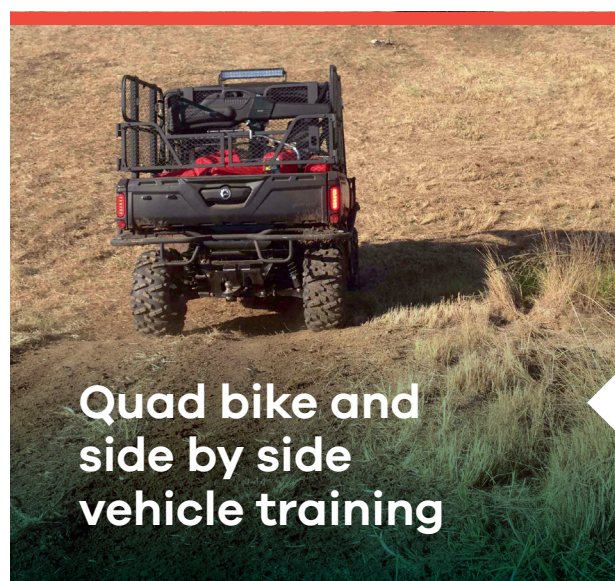
Our position on climate change and greenhouse gas emissions is outlined further on page 50 of this report. Our supply chain generates a large carbon footprint through the methane generated by cows. We also face the impacts of climate change through changing weather patterns and water security challenges. We are working with dairy farmers on research projects to reduce emissions as well as on initiatives to improve water security.

Funding support from the Australian Government's Carbon Farming Futures Extension and Outreach Program has enabled us to lead discussion groups and activities that support greenhouse gas emission reductions on the farm. These sessions informed farmers about how to reduce methane emissions through expert nutritional and calf/heifer rearing support.

We have actively engaged in water management initiatives and programs to secure sustainable water access for suppliers and support upgrades to improve water use efficiency. Water security, particularly for irrigation, is already a significant issue for many of our suppliers. Looking to the future, this issue will deepen as we feel the effects of the increasing impacts of climate change. Time spent in drought is projected to increase over the course of the century.<sup>4</sup> In the Bega Valley, Bega Cheese actively participates in IPART water pricing determinations and supports suppliers in the implementation of water sharing in accordance with the Water Sharing Plan. This plan sets rules for water trading and annual water allocations in New South Wales.

As most available water is fully allocated, water trading remains the primary way that water can be obtained.

We recognise that quad bikes present a safety risk on farms and are a major culprit of injuries among our suppliers. To address this, we have partnered with the NSW Government and specialist Risk Response Rescue to provide vehicle training for our suppliers in the Bega Valley.



## Quad bike and side by side vehicle training

Work safety has impacts beyond the workplace – all families wish to see their loved ones come home safely. This is no different for our suppliers. Unfortunately, too often accidents happen, and quad bikes are a major cause. There were 106 quad bike fatalities in Australia between 1 January 2011 and 31 December 2016. Almost half of the fatalities were workers and 69 fatalities occurred on a farm or property.<sup>5</sup> This is unacceptable and a genuine tragedy for our rural communities. Bega Cheese is strongly committed to the safety of our staff and suppliers. We jumped at the opportunity to run an accredited training program for our suppliers on the safe use of quad bikes and side-by-side vehicles.

Twenty-three farmers participated in the two-day training program. The training wasn't easy. Participants had to take the vehicles up steep hills forwards and backwards to gain an appreciation of what the vehicles could do safely and how to avoid a rollover. The training also covered first aid on the most common quad bike injuries. We are grateful for the funding support provided by the NSW Government and the professionalism of the training provider Risk Response Rescue.

**UN Sustainable  
Development Goals**



<sup>4</sup> <https://www.climatechangeinaustralia.gov.au/en/climate-projections/>

<sup>5</sup> <https://www.safeworkaustralia.gov.au/quadwatch>



## Snapshot of Bega's milk supply initiatives

	FY2017 (cumulative program total)
Number of BEMS projects approved	159
Number of projects completed	109
Effluent systems upgraded	50
Fencing installed (kilometres)	242
Streams protected (hectares)	405
Wetlands protected (hectares)	72
Riparian areas revegetated (hectares)	247
Shade and shelterbelts created (hectares)	116
Nutrient plans northern Victoria	25
Herd nutrition consultancy support in northern Victoria	60

### Plans for FY2018

- Develop a new sustainability program for dairy suppliers with the opportunity to access information, services training and capital works funding to support their business in investing in farm sustainability.
- Develop an Ethical Sourcing policy framework which will be supported by a supplier pre-qualification platform.

## Animal welfare

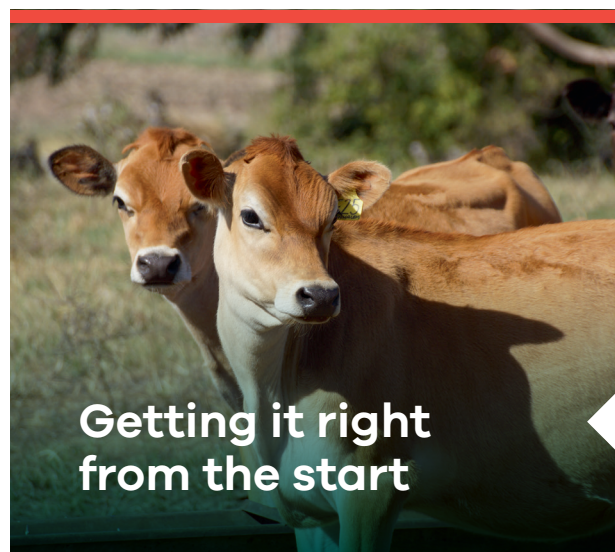
Our operations depend on the productivity of dairy cows – and this means ensuring their health and welfare. As a provider of dairy products, we have significant impacts on animal health, welfare and husbandry practices. We recognise this is of great interest to our stakeholders, particularly large customers and consumers.

To improve the welfare of cattle in dairy farming enterprises, Bega Cheese requires the humane and considerate treatment of dairy cattle and calves and the use of good husbandry practices. This is a condition we place on our suppliers, as detailed in our Supplier Handbook. We support the Australian Dairy Industry Sustainability Framework, which aims for 100% compliance with legislated Australian Animal Welfare Standards and 100% uptake of relevant recommended practices by 2020. We also support the National Dairy Industry Animal Welfare Strategy and require all suppliers to comply with the Australian Animal Welfare Standards and Guidelines for Cattle and the Australian Animal Welfare Standards and Guidelines for Land Transport for Cattle.

We encourage the adoption of recommended practices as part of the BEMS program, including:

- Ensuring that workers handling dairy animals on farm are aware of and are adhering to their requirements for the care of their animals
- Reducing calving induction and ensuring that it is only done under veterinary advice
- Ensuring that tail docking is only done under veterinary advice to treat injury or disease
- Minimising lameness by adopting practices for prevention, early detection and effective treatment on farm
- Ensuring that pain relief is applied when dehorning cattle unless calves are less than six months old
- Ensuring that all calves are managed across the supply chain to meet agreed industry practices and standards
- Ensuring that sick or injured cows are managed to minimise risk to their welfare with adequate shelter, feed and water. Animals unable to be treated must be humanely euthanised as soon as possible.

Our priorities in animal welfare are to ensure legislative compliance, maximise the uptake of recommended practices and improve the management of bobby calves. We audit all farms in our Bega supply region annually and farms in our Tatura supply region every two years. Farms are audited for practices based on risk. Non-compliant suppliers are given an agreed timeframe for action and close-out, and will be audited the following year.



## Getting it right from the start

Rearing calves is not as easy as it looks. There is a lot that needs to be done right to ensure that calves remain healthy and meet their genetic growth and production potential. If done well there can be significant long-term reductions in emissions and improved milk production, as well as animal welfare benefits. An increasing number of our suppliers are rearing their bobby calves themselves or selling them to calf rearing specialists to extend their life, rather than selling them at a saleyard. We are supporting these efforts by providing access to technical advice.

This year, with funding support from the Australian Government, we engaged Jeanette Fisher from Heifermax to conduct workshops and on-farm consultations in our Bega and Tatura supply regions. Heifermax is an international on-farm advisory service which specialises in replacement dairy heifer management. Jeanette is a calf rearing specialist who has combined her practical knowledge of rearing calves with the latest scientific knowledge from around the world. She was able to support the challenges many suppliers experience, by providing some practical solutions based on sound science. Many of our suppliers have acknowledged an improvement in their calves following advice provided by Jeanette.

**UN Sustainable  
Development Goals**









# Contributing to communities





# Contributing to communities

## Supporting regional economies

Bega Cheese developed from a community of rural farmers, and we found our feet in the Bega Valley. We are proud of our heritage and humble beginnings. Understanding the importance and potential of regional communities and economies is what drives us to support them.

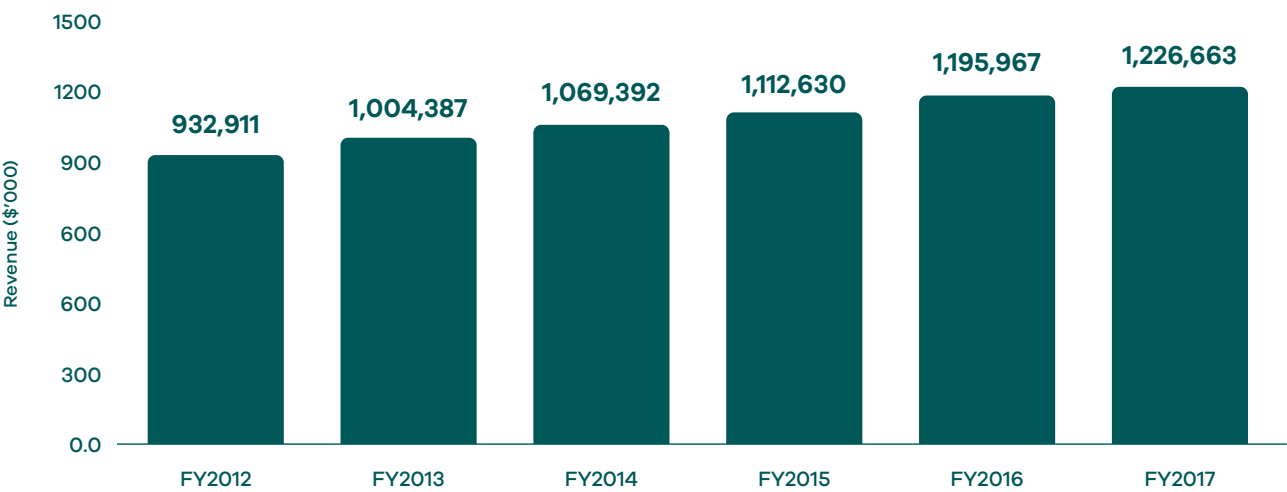
We contribute to communities through direct employment, support for regional charities, payments to our suppliers, tax payments to government, and dividends to shareholders.

Bega Cheese is a significant employer in the Bega Valley of New South Wales, Strathmerton and Tatura in northern Victoria, and Derrimut and Coburg in Southern Victoria.

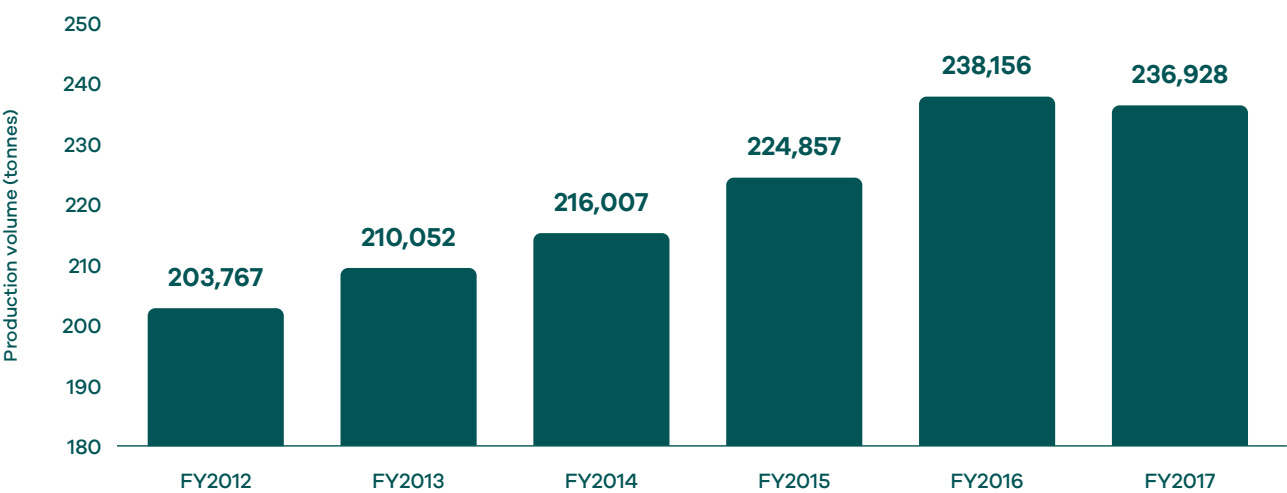
We manage our Australian tax obligations in line with the expectations of the Australian Tax Office (ATO) and have a strong history of paying fully franked dividends to shareholders. Our results this year supported our full-year dividend of 10 cents per share. Under Australian taxation law, Bega Cheese has two taxable entities, being Bega Cheese Limited and Tatura Milk Industries Limited. In FY2017, we paid \$10.7 million in tax in the ordinary course of business.



Year-by-year revenue



Year-by-year production volume











### Community partnerships

Bega Cheese is a major business in regional cities and towns in south-eastern Australia. We rely on the great support of these communities and equally, their sustainability is a fundamental cornerstone of our approach to business.

We provide support to charity through monetary contributions, and organising charitable events such as the Tatura 200 Charity Bike Ride and the Bega Corporate Event.

Bega Cheese also encourages its staff to participate in volunteer work, and we partner with organisations to support rural activities such as the Australian National University Rural Clinical School. At the end of FY2017, Bega Cheese had approximately 1,600 people employed across seven locations, including the Bega Valley in New South Wales, regional Victoria, and three locations in Melbourne.

In FY2017, Bega Cheese and its subsidiary, Tatura Milk Industries (TMI), contributed \$450,000 to local organisations throughout regional NSW and Victoria. The Bega Cheese charitable and sponsorship policy is focused on supporting the local communities where our dairy farmers and staff live. We support a wide range of projects across the arts, education, health, welfare, sports and community.

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**In FY2017, Bega Cheese and its subsidiary, Tatura Milk Industries (TMI), contributed \$450,000 to local organisations throughout regional NSW and Victoria**



5







# Our people



# Our people

**We have a vibrant, diverse and inclusive workforce of over 1,600 employees. With a strong focus on potential, leadership and capability, we aim to be an employer of choice in the food industry.**

Bega Cheese is a major business in regional cities and towns across Australia, operating at seven locations across New South Wales and Victoria. Approximately 77 per cent of our employees are covered by collective bargaining agreements, and 23 per cent are employed under common law contracts.

Our Code of Conduct, referred to throughout this report, is a guiding set of principles that set the standard for the way we do business at Bega Cheese, ensuring we observe the highest standards of business conduct. Our employees play a central role in establishing, maintaining and enhancing our reputation and ensuring that the high standards of ethics and behaviour are observed. Our Code of Conduct, along with our corporate policies, guide our people in displaying the highest levels of professionalism in all aspects of their work.

## **Social Diversity and Equal Opportunity**

In 2017, our Board approved the Diversity & Inclusion (D&I) Strategy for 2017-2020. We strive to foster a diverse and inclusive workplace that facilitates opportunity and respect for all our employees. We believe that the wide array of thinking, perspectives and experience in a diverse workplace promotes innovation, enhances quality decision making, and enables us to attract and nurture the best talent. Our commitment to diversity and inclusion is formalised in the Bega Cheese Diversity and Inclusion Policy, which has five strategic elements: leveraging strengths, developing people, understanding people's needs, community, and removing barriers.

## **Supporting new parents**

Our family-friendly policies include paid parental leave, offering 12 weeks' paid leave for the primary caregiver, and up to 40 weeks of unpaid primary carer's leave. In addition, we have introduced a Super Booster, a 12-week superannuation top up for those taking more than 12 weeks of unpaid leave. This support means that we consistently have a high rate of employees return to work after taking parental leave.

## **Supporting mature age employees**

We value age diversity in our organisation, and appreciate knowledge and experience our mature age employees bring to the workplace. We offer a wide range of flexible working initiatives, including options for mature employees to take a gradual approach to retirement.

## **Working flexibly**

We strive to provide a flexible working environment that accommodates the needs of our people, our customers and our business. Access to flexible working options can improve productivity, and support a more sustainable work-life balance. Our initiatives include supporting changes in contact hours, options for moving into part time or job share opportunities, and working remotely.

## Gender Equality

We are committed to promoting gender equality in the workplace. A key opportunity for Bega Cheese is to increase the percentage of leadership positions held by women.

We report annually to the Workplace Gender Equality Agency against the standardised gender equality indicators, in accordance with the requirements under the Workplace Gender Equality Act 2012 (Cth). We aim to:

- increase the representation of women in management positions to 33 per cent (currently 21 per cent)
- actively seek at least one female candidate on the short list of candidates for positions in the top three levels of the company where an external search is undertaken
- focus on like-for-like roles to close the gap on equal remuneration between men and women
- improve the promotion of women through our 'Inside First' philosophy which assesses the role requirements and checklist for hiring managers, including possible mitigating strategies before an external search.

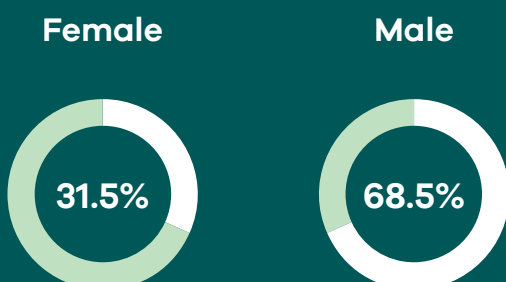
Our business also continues to promote the achievement of our gender targets by putting in place support such as flexible working and paid parental leave.

For more information on our approach to diversity and inclusion see our Annual Report 2017 and the Workplace Gender Equality Agency website.<sup>6</sup>



<sup>6</sup> [www.wgea.gov.au/report/public-reports](http://www.wgea.gov.au/report/public-reports)

## Bega Cheese employee breakdown by employment type and gender



Female		Male
504	Total	1096
286	Full-time	955
86	Part-time	73
372	Permanent	1028
132	Temporary	68



# We are committed to ensuring all employees, contractors and visitors to our sites are provided with a healthy and safe work environment.

## A safe workplace

Safety is a material issue for our business that extends throughout our supply chain. Manufacturing plants are where we have the greatest control, and by their very nature they can present multiple risks to safety. Heavy machinery, mobile plant and manual handling prevalent in manufacturing all represent risks to our workers.

The Australian Dairy Industry Sustainability Report 2016 reports a small decrease in Lost Time Injury Frequency Rates (LTIFR) in FY2016 for dairy manufacturing. At the same time Bega achieved a 25% reduction in LTIFR.

Our commitment to ensuring all employees, contractors and visitors to our sites are provided with a healthy and safe work environment is underpinned by our company value of 'Safety Always'. Our leadership competency of 'Drive a Culture of Safety' is an expectation we hold of all levels of leadership at Bega Cheese. In order to drive a culture of safety, all leaders are required to promote our core value of Safety Always among teams. Key required actions include: never walking past an unsafe act or unsafe condition; always reinforcing safe behaviour; regularly communicating expectations toward safety; ensuring risks are assessed and controlled; and monitoring effectiveness of corrective and preventive actions.

## Engaging staff on safety

Our people are at the core of our business and we recognise that the safest workplaces are those where there are high levels of engagement with staff. Robust health and safety procedures have been developed to detail specific actions that must be taken to manage critical risks, and provide staff with opportunities to exercise reasonable judgement. Leaders across the business are encouraged to regularly engage with their staff regarding health and safety, including:

- formally through, safety briefings, toolbox talks, health and safety committee meetings, and team briefings
- informally through safety briefings, safety walks and engagement outside the normal work environment such as lunchroom chats.

In FY2017 Bega engaged Dekra Insight in a two-year program to further develop the necessary field based skills to embed the competency of 'Drive a Culture of Safety'. The first step on this journey was to conduct an organisational culture diagnostic through a whole-of-business safety culture survey (achieving a 70% participation rate) and a series of focus groups and interviews. The diagnostic allows us to benchmark our safety culture and compare strengths and opportunities for development with global best practice.







Performance

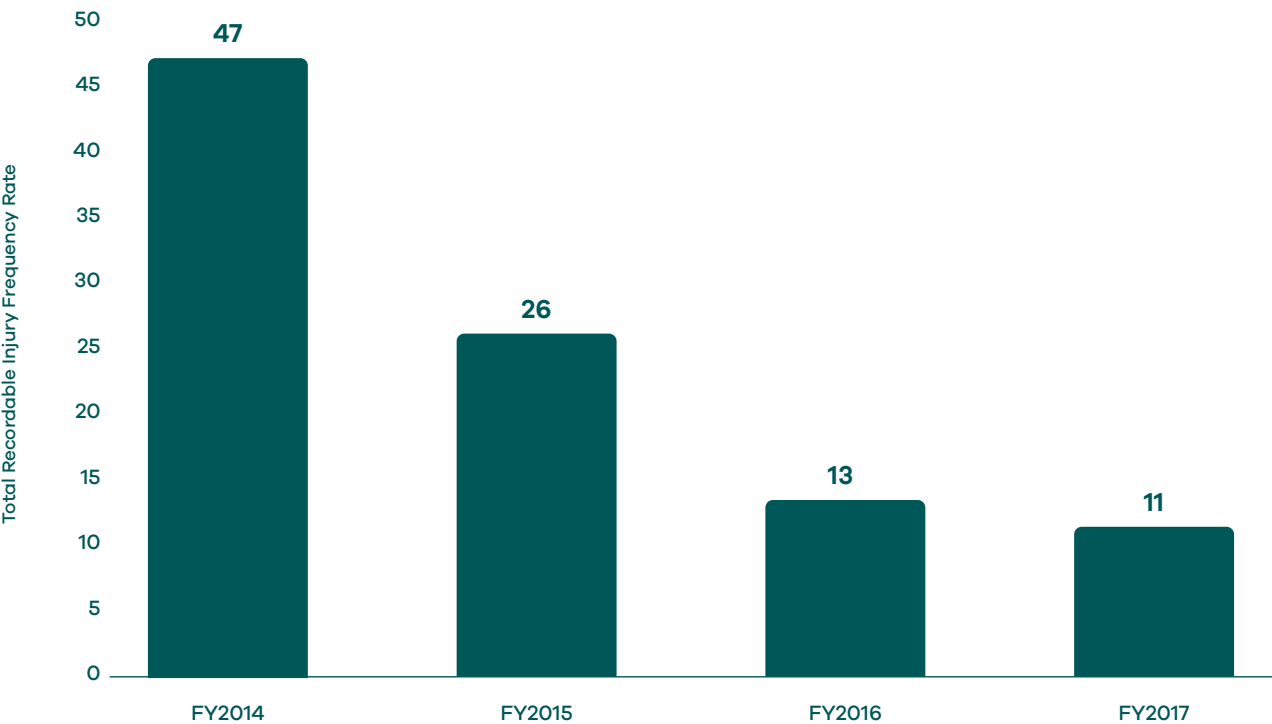
Year-on-year we have continued to meet or exceed objectives and targets aimed at eliminating all work-related injuries and illnesses.

During FY2017, the Group’s Total Recordable Injury Frequency Rate (TRIFR) per million hours worked was 11, which represents a continued reduction in TRIFR and an improvement of 15% on the previous year. This consisted of eight Lost Time Injuries, eight Medical Treatment Injuries, and 14 Restricted Work Injuries. There were no workplace fatalities, prosecutions, fines or penalties for occupational health and safety issues in FY2017.

The data includes direct employees and workers employed through labour hire contracts. It does not include workers employed through contractors on larger-scale engineering projects or suppliers.

As planned, during FY2017 we introduced a new safety performance objective for managers. Risk Completion Rate (RCR) is a measure of the rate at which actions are closed to mitigate identified risk exposures arising from incidents and hazards, including near misses. Specifically, this is the number of incidents, hazards and near misses with an actual or potential risk score of five or above which are closed within 60 days. FY2017 represents our baseline year for RCR and we will report on progress in subsequent sustainability reports.

Total Recordable Injury Frequency Rate



Plans for FY2018

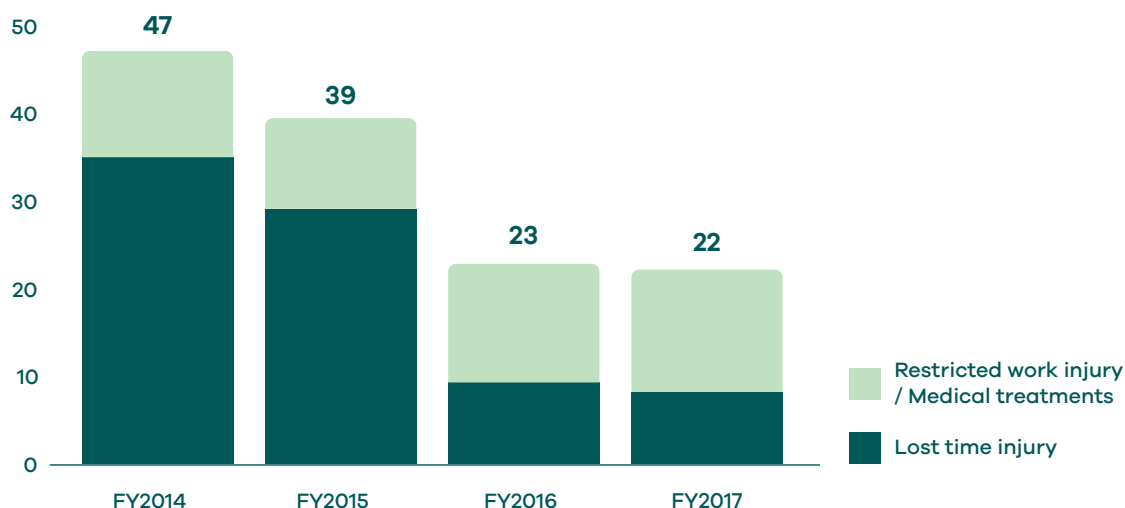
- Achieve a Risk Completion Rate of 65%
- Achieve a Total Recordable Injury Frequency Rate of nine or less



### Risk Framework

Health and safety risk registers are established across the business and were formally reviewed by site leadership teams during Q3 FY2017. Each site register identifies risk exposures ranked by significance, clearly establishes accountability, and then tracks assigned actions. Risk registers are an important capital and resource planning tool at both site and Group level. The top risk exposures across Bega Cheese were reviewed by the Executive team in June 2017 as part of a formal management review process. They are also reviewed every six-months by the Board as part of a formal due diligence review process. Bega Cheese reports all notifiable health and safety incidents in accordance with the Occupational Health and Safety Act 2004 in Victoria and Work Health and Safety Act 2011 in NSW. Internal measures for monitoring health and safety performance and driving improvement are evolving and have been developed with reference to Safe Work Australia guidance.<sup>7</sup>

## Total recordable injuries



<sup>7</sup> See O'Neill, S & Wolfe, K, Measuring and reporting on work health & safety, Canberra, Safe Work Australia; March 2017







# Health and nutrition





# Health and nutrition

According to the United Nations Sustainable Development Goals, 795 million people are hungry today and the world will need to feed an additional 2 billion people by 2050. Our role as a dairy manufacturer, and now an emerging diversified Australian food company, means that we can play a key role in feeding more people on more occasions - and in addressing health issues in developed economies. We must also meet the challenge of providing healthy and nutritious food, while using fewer resources and reducing our environmental impacts.

The Australian Dietary Guidelines 2013 recommend the consumption of milk, cheese and yoghurt, mostly low fat, and/or alternatives as part of a healthy diet. However, only 10% of Australians eat enough of these foods.<sup>8</sup> At the same time, snacking behaviour is changing, reflecting a trend towards healthier lifestyles. People who regularly include nuts or peanut butter in their diets, for example, are less likely to develop heart disease or type II diabetes than those who rarely eat nuts. Our acquisition of the Mondelēz Grocery Business will help us further develop our position on human health and nutrition, which we look forward to sharing in future sustainability reports.

## Product safety

As a food producer, the safety of products manufactured by Bega Cheese is a priority material issue. We develop food safety and quality standards based on a review of customer requirements, international standards, history of events and emerging issues. These standards are formalised as a Quality Minimum Requirement, managed by a corporate quality group and applied across our manufacturing sites, including third-party manufacturing sites. Bega Cheese sites undergo quality systems and food safety audits by multiple second and third parties. In FY2017, we conducted 55 audits with 142 audit days and either maintained or improved all of our quality certifications. We participate in the Global Food Safety Initiative (GFSI) through certification under the British Retail Consortium (BRC) Global Standard for Food Safety. This is the largest global GFSI manufacturing scheme and we use SAI Global, the leading provider of supplier evaluations in the world to the BRC standard, to audit this. All of our sites hold an A or AA rating under this certification scheme. There were no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our products this year.

- Bega Cheese produced 236,928 tonnes of dairy products in FY2017
- On a per-serving basis, this is equivalent to approximately 9.5 billion serves
- On this basis, we received less than one complaint from every 1.5 million serves delivered to the customer
- No enforced or voluntary product recalls for food safety issues in FY2017.

### Plans for FY2018

- Maintain zero product recalls for food safety
- Continue to reduce customer and consumer complaints

<sup>8</sup> Australian Dairy Industry Sustainability Report 2016, ADIC











# Environment





# Local and global environment

As a food producer, many of our environmental impacts are in our supply chain and on farms.

We address impacts such as water, energy and greenhouse gas emissions on farms through our Environmental Management System (BEMS), which is a voluntary continuous improvement program. Our six manufacturing sites in Australia also have impacts on the environment including energy consumption, water consumption, solid waste generation, wastewater management, air emissions and local noise and odour. Many of these issues, such as local noise and odour, are of concern to our community stakeholders.

Each site operates under an environmental management system (EMS), aligned to ISO 14001, which focuses on that facility's most significant environmental risks and sustainability concerns. We monitor and report on key performance indicators relating to energy and water consumption, carbon, quantity and quality of wastewater as well as solid waste and recycling. A corporate-wide EMS is under development and we will report on progress in our 2018 sustainability report.

Sites with factory water reuse programs also monitor the environmental impact of reuse water on irrigation areas. Sodium can affect soil structure and pasture health, and we monitor the impact of irrigation on soil through an extensive soil sampling and analysis program. The report is submitted annually to environmental regulators and continuous improvement actions are implemented.

## Managing environmental impacts

Our approach starts with the Bega Cheese Environmental Policy Statement (the Policy), which is endorsed by both the Chief Executive Officer and Executive Chairman. The Policy is linked to management processes and guides all operations. Specifically, it encourages business managers to consider environmental implications of decision-making processes including capital allocation and procurement, it establishes measurable objectives and targets to reduce resource use, and it also fosters a mind-set of continuous improvement through the whole organisation. Activities and performance indicators are reviewed annually to ensure that they remain relevant to Bega Cheese's operational needs and deliver improved performance while maintaining compliance.

Under the EMS, each Bega Cheese site maintains an Aspects and Impacts Register that details environmental risks and opportunities. These are systematically reviewed, assessed, and ranked with approved controls selected to avoid, remedy or further mitigate impacts. We are progressively aligning and streamlining our environmental management and reporting processes.

Bega Cheese also contributes data on our key environmental impacts to the Dairy Manufacturers Sustainability Council's Sustainability Scorecard, including water consumption, greenhouse gas emissions, energy consumption, waste to landfill and wastewater. This information is reported publicly for the sector and is used by participating companies for benchmarking, monitoring and reporting purposes. For more information, visit <http://www.dmsc.com.au/reports>

## Environmental compliance

Bega Cheese is subject to federal, state and local environmental regulations. These include: reporting requirements under the National Greenhouse and Energy Reporting Act 2007 (Cth), the Environment Protection Act 1997 (NSW), the Protection of the Environment Act 1970 (Vic) and the Clean Energy Act 2011 (Cth).

Our manufacturing sites are licensed under State Environment Protection Regulations in New South Wales and Victoria which stipulate performance standards and assessment methods for emissions to land, air and water (e.g. noise, air, odour, wastewater discharge.) During the year, Bega Cheese received an infringement notice of approximately \$8,000 and an official warning from the Environment Protection Authority of Victoria for failing to comply with a Pollution Abatement Notice which the Authority had issued previously, as well as exceeding noise emissions from our operating site in Coburg. In 2016, we installed an acoustic wall around the site and refrigeration compressors, sound-proofed many pumps and fans, and suppressed exhaust emissions at roof level. We are currently implementing a detailed action plan to mitigate the major noise sources while also engaging and updating local residents and authorities on this issue.

Bega Cheese also received a penalty notice of \$1,300 this year, issued by the Environment Protection Authority of New South Wales, when a vehicle operated by a third party on behalf of the company was inspected and found to be carrying dangerous goods without the appropriate licence or documentation in place. We have since reviewed our procedures and implemented management processes to ensure that third-party vehicles comply with dangerous goods regulations before consignments are despatched.

The Environment Protection Authority of New South Wales added a Pollution Reduction Program (PRP) to our licence for our Lagoon Street site in Bega, in March 2015. This required action to reduce particulate emissions from the wood boiler stack and the whey drying stack and to demonstrate compliance with ground level particulate concentrations at sensitive receptors via dispersion modelling. We have spent 12 months measuring background particulate levels in the Bega Valley air shed and we expect to complete the modelling study shortly. We will report on the results of this project, the implications for compliance and our response in our 2018 sustainability report.

## Energy

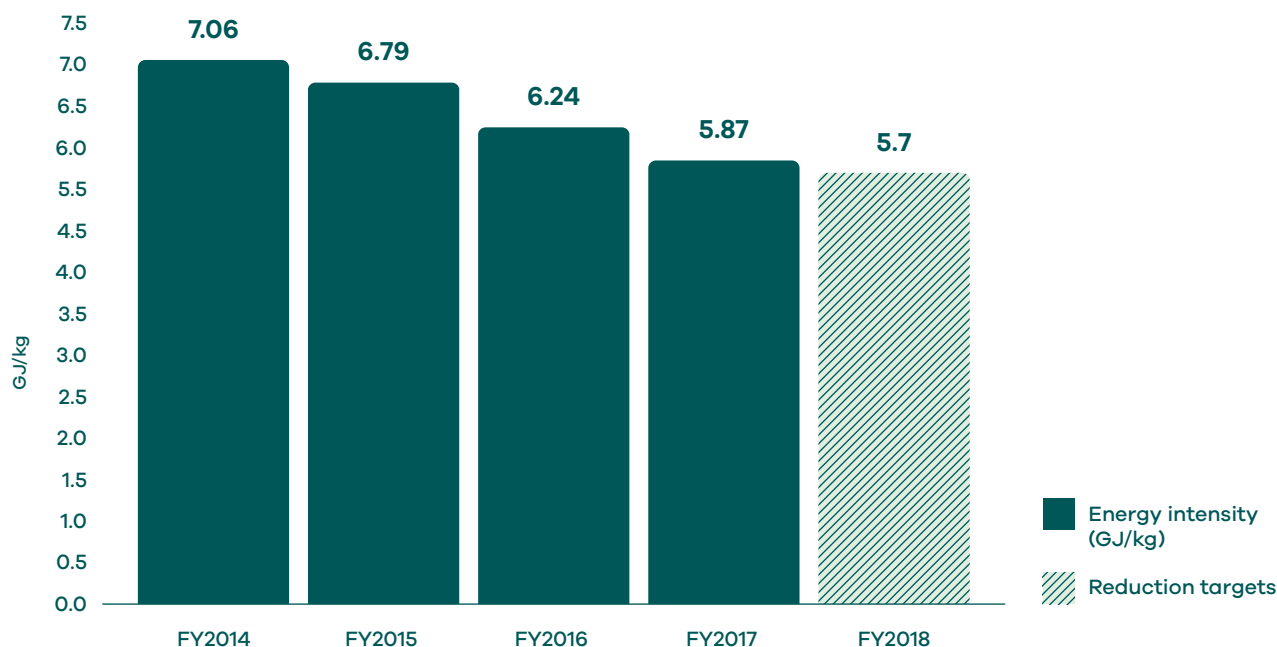
Energy is critical to all aspects of our operations, from milking to making cheese and delivering it to customers. Increasing the security of our energy supply while reducing costs and greenhouse gas emissions is vital to our business future. Analysing our energy consumption patterns provides multiple benefits and improvements are realised through deeper process knowledge, reduced operating times, reduced waste and maintenance needs, and staff engagement.

We have set ambitious targets to improve energy efficiency across all manufacturing sites. Our energy target is adjusted from year to year and takes into consideration our specific product mix which has an impact on energy intensity. Our target in FY2017 was 6.11 GJ/kg and we achieved that target with an overall energy intensity of 5.87 GJ/kg this year. Not only does this reduce our environmental footprint, but it delivers a significant benefit to the bottom line, ensuring Bega Cheese remains cost-competitive in an operating environment where energy prices have increased significantly since 2015. Our energy intensity target for FY2018 is 5.7 GJ/kg.

Bega Cheese focused on site-specific energy efficiency projects during FY2016 such as recovering energy from hot and cold processes and optimising process efficiency. We strengthened our commitment to our energy targets this year by forming an internal energy working group and engaged an energy services partner later in 2017 to achieve greater efficiencies. Together we will develop an energy roadmap for each factory, identifying a pathway of activities to reduce energy waste, optimise efficiency and develop strategies for improved energy management with consideration of energy security and energy generation. These activities will reduce operating costs and help us to manage rising energy prices.



## Energy intensity by financial year



## Total energy consumed by source

Energy source	FY2017 Energy consumption (MJ)
Natural gas	824,369,853
Electricity	305,831,133
Wood waste	269,048,000
Stationary LPG	26,161,917
Transport diesel	1,300,496
Transport petrol	1,150,622
<b>Total</b>	<b>1,427,862,021</b>

Our energy and greenhouse gas emissions data includes our operating and manufacturing sites: Lagoon Street and Ridge Street in Bega New South Wales; and Strathmerton, Coburg, Derrimut and Tatura in Victoria. Our Port Melbourne and Bega corporate offices are excluded.

All energy use is included: electricity, sawdust and gas (for steam – hot production processes), petrol and diesel.

Electricity is used for refrigeration and generating chilled water for production. Petrol and diesel are used for company vehicles and excludes privately owned staff vehicles and tanker/transport vehicles.

We continue to use waste from regional timber mills in Bombala and Eden in south-eastern NSW as a fuel source at our Lagoon Street site in Bega. This constitutes almost 19% of our overall energy consumption.

### Plans for FY2018

- Achieve energy intensity target of 5.7 gigajoules per tonne of product
- Develop energy road maps for each operating site.

# Efficiency improvements at Lagoon Street site –saving energy and wastewater

We have an ongoing focus that ensures we process raw materials and manufacture finished goods as efficiently as possible. In doing so, we provide the best possible return on investment while also reducing our environmental impact.

At the Lagoon Street site in Bega, we reduced energy intensity (GJ/tonne) by 11%. The site has also decreased wastewater volume by 10% and chemical oxygen demand (COD) to wastewater by 46.7%.

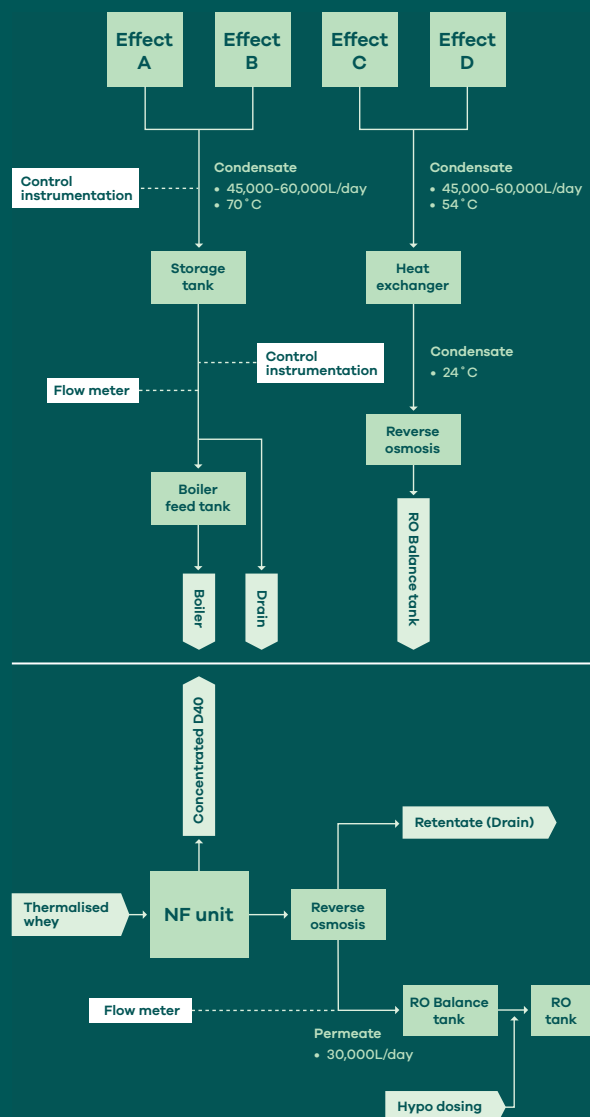
A key driver of this reduction was modifications made to improve the efficiency of the evaporation process including:

- introduction of a drying step using less energy in evaporation
- improvements to process parameters and return of usable hot water to the boiler
- buttermilk recovery in processing
- reverse osmosis water utilisation

## UN Sustainable Development Goals



## Evaporator condensate combined with heat recovery to reduce energy intensity and water usage





## Climate change

We understand the science of climate change and the global consensus of the Paris Agreement which commits to hold the increase in the global average temperature to well below 2°C, relative to the preindustrial period. Bega Cheese is committed to transitioning to a low-carbon economy and we have set a greenhouse gas intensity target for our operations to reduce our emissions by 15% from our 2012 baseline by 2020. At the same time, investors and broader stakeholders are increasingly demanding information on the risks and opportunities arising from climate change and how we are managing them. Climate change presents multiple risks and opportunities to our business. Some of these include, but are not limited to the following examples:

- Regulation – Monitoring and reporting on our direct and indirect greenhouse gas emissions
- Operations and efficiency – Progress in reducing energy consumption and costs, improving energy security and developing a renewable energy capacity
- Business model – Improving our understanding of the policy environment and how this may influence our business going forward
- Supplier relationships – Planning for a secure supply of raw materials addressing the challenges of water security, changing weather patterns, pressures on food security and prices
- Customer relationships – Changing consumer demands and planning for extreme weather events which may disrupt the distribution of our products.

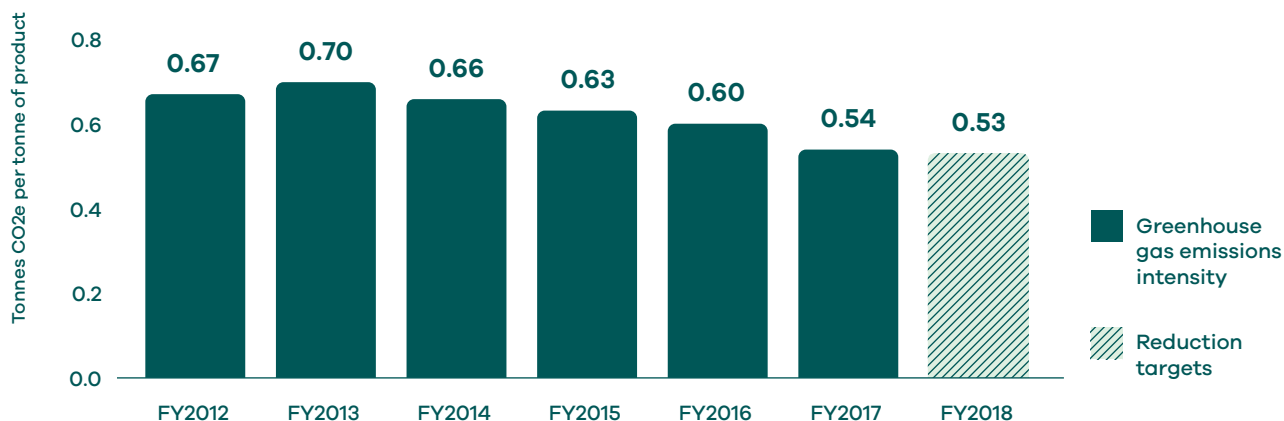
Our approach to date includes reporting on the emissions associated with our operations, increasing our energy efficiency, reducing waste and preparing for the impacts of climate change through improved water management and working with our suppliers. In the coming year, we will examine how to embed considerations of climate change into our risk management framework and the implications of the Paris Agreement for our business model.

Bega Cheese is subject to the National Greenhouse and Energy Reporting (NGER) scheme, established by the National Greenhouse and Energy Reporting Act 2007 (NGER Act). Under the scheme, we report on our greenhouse gas emissions, energy production and energy consumption. Information on greenhouse gas emissions has been calculated according to the National Greenhouse and Energy Reporting (Measurement) Determination 2008.

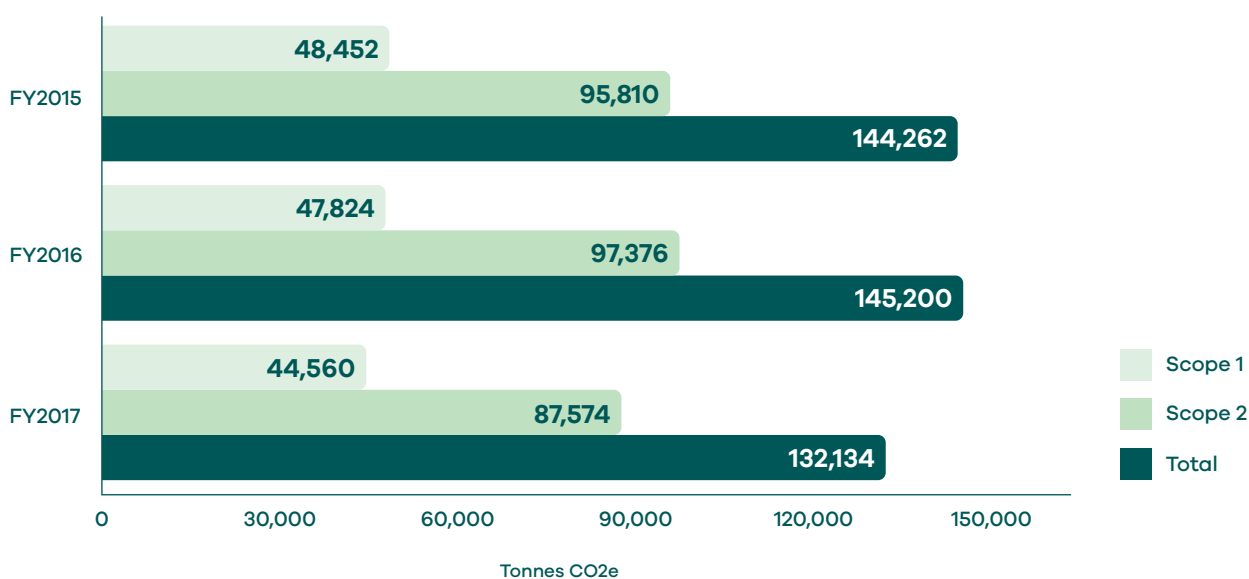
Our greenhouse gas reduction target for this year was 0.59 tCO<sub>2</sub>e/tonne of product and we improved on this with an actual intensity of 0.54 tCO<sub>2</sub>e/tonne of product. This was largely achieved through a focus on energy efficiency projects which we will extend next year. We have maintained our downward trend in emissions intensity and energy intensity since FY2013, helping us to contribute to the industry's national target under the Australian Dairy Industry Sustainability Framework to reduce greenhouse gas emissions intensity from dairy manufacturing by 30% by 2020 compared to 2010-2011 levels. Between 2010-2011 and 2015-2016, the dairy manufacturing industry in Australia has reduced its greenhouse gas emissions intensity by more than 21%.

Our target for next year is 0.53 tCO<sub>2</sub>e/tonne of product. This target will also include the challenge of including the operations of the Bega Foods business which will be integrated during the year. The Bega Foods business will have a different product mix and associated energy profile, resulting in higher greenhouse gas intensity.

## Greenhouse gas emissions intensity



## Greenhouse gas emissions



- Scope 1: Direct GHG emissions – GHG emissions from sources that are owned or controlled by an organisation
- Scope 2: Energy indirect GHG emissions – GHG emissions that result from the generation of purchased or acquired electricity, heating, cooling, and steam consumed by an organisation

### Plans for FY2018

- Achieve greenhouse gas intensity target of 0.53 tonnes of CO<sub>2</sub>e per tonne of product
- Embed climate change into our risk management framework



## Water management

In the manufacturing of our products, cleaning is the single largest water-consuming process. While this is driven by high product safety standards, we are constantly looking for ways to reduce our water consumption and both re-use and recycle water.

Between FY2011 and FY2016, the dairy manufacturing industry in Australia reduced its consumptive water intensity by 7% overall while recording an increase of 3% in FY2016. Our own water consumption has similarly fluctuated during the past three years. This year, changes to our product mix at sites such as Tatura resulted in increased changeovers and an increased use of water to ensure food safety. We will continue to contribute to the industry's national target under the Australian Dairy Industry Sustainability Framework to reduce the consumptive water intensity of dairy manufacturers by 20% by 2020 compared to FY2011. Our target for next year is to reduce potable water intensity to 8.48 kl/t.

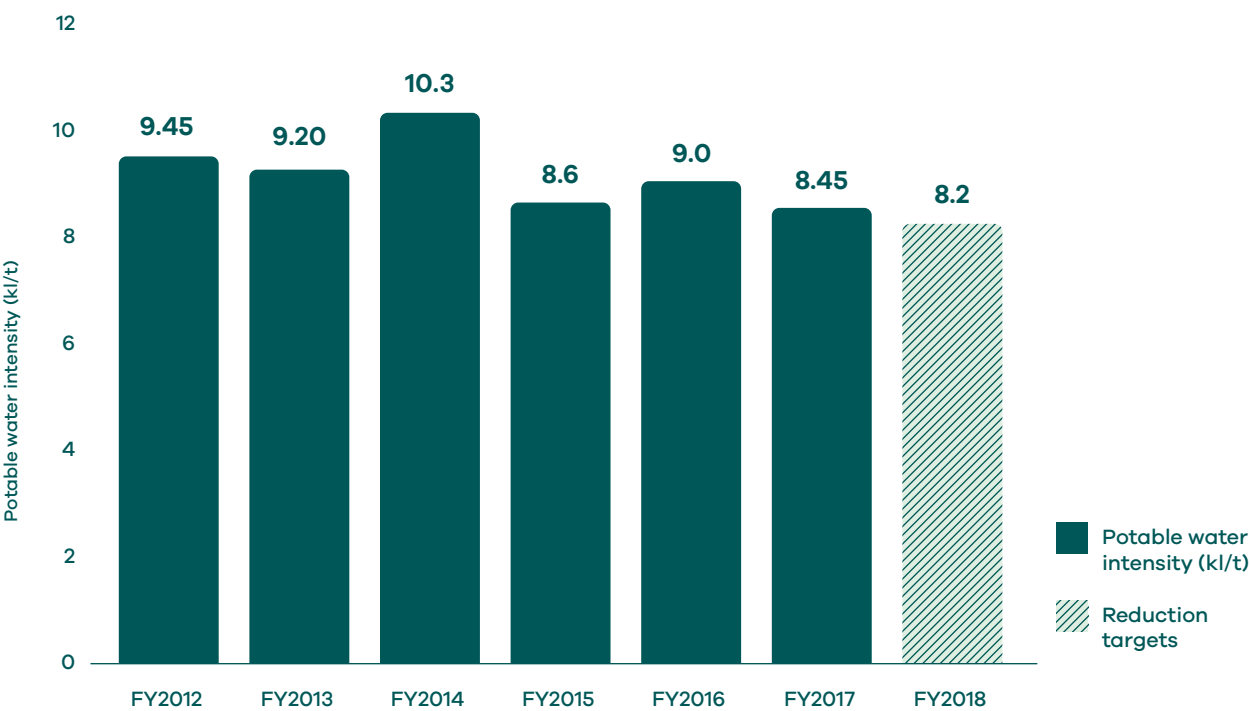
At our Lagoon Street site, we aim to reduce our water consumption over two years from 1.3 ML per day in FY2016 to 0.8 ML per day by FY2018. Projects have commenced at the site to better identify incoming water consumption and recovery opportunities in the factory and other buildings. Recovered water is being used, for example, for toilet flushing in our laboratory.



## Breakdown of water withdrawal by source

Water withdrawal by source (ML)	FY2015	FY2016	FY2017
Ground water	348	340	340
Municipal water	1,661	1,906	1,730
Total withdrawal	2,009	2,246	2,070
Recycled and reused water	618	656	570

# Potable water intensity compared to targets





Release of wastewater

This year we contributed funds to the Bega Valley Shire Council to extend the municipal wastewater system to our two manufacturing sites in NSW. This mitigates the risk of contaminants being irrigated onto land.

Bega Cheese is reviewing the way it treats and manages milk solids within the various product streams, exploring opportunities to optimise fat, protein and lactose within the process. Given the cost implications of trade waste treatment on top of the loss of a valuable raw material, milk recovery represents a significant opportunity for the company at each of our milk processing sites. This year our wastewater per tonne of product decreased from 9.75 kl/t to 8.52 kl/t. Our Lagoon Street site in Bega recorded a reduction of 10% in wastewater volume last year. The Lagoon Street site also conducted trials this year to reduce the loss of milk solids and achieved a reduction of 52% compared with losses in the previous financial year for the full year.

These trials have subsequently resulted in a capital investment by the business to embed the changes. The capital works are planned for completion prior to FY2019.

In 2015, a Milk Loss Reduction and Sodium Reduction Project was established to:

- identify the sources of losses of milk solids and sodium to the trade waste system in each plant or processing area
- quantify these losses in terms of volume and value
- rank the identified losses in terms of environmental impact, value and ease to rectify
- identify and implement actions to reduce the losses identified.

After reductions of 12% fat, 3% protein and 6% solids (mostly lactose) in the previous year, the team experienced some challenges associated with cream cheese production this year at the Tatura site. Reductions of a further 4% protein (kg/t) and 2% total solids (kg/t) were achieved while losses of fat (kf/t) temporarily increased during commissioning by over 50%. Multiple dedicated projects are under development and progress will be reported next year.

Wastewater per tonne of product



Plans for FY2018

- Reduce potable water intensity to 8.48 kilolitres per tonne of product
- Reduce town water consumption by 50% at the Lagoon Street site
- Achieve a chemical oxygen demand of 663,460 kg lost
- Continue the Milk Solids and Sodium Reduction Program at the Tatura site to identify and implement new improvements and report on outcomes

# Addressing food waste

Food loss along the value chain and food waste discarded by consumers represent significant costs, as well as a loss of the resources used to make dairy products. Australians waste 20% of the food they purchase worth \$9.6 billion a year<sup>9</sup>. Our freshwater, energy and land resources are also wasted when food is lost or discarded. Greenhouse gas emissions and landfill are also generated. Target 12.3 of the UN Sustainable Development Goals calls for halving per-capita global food waste at the retail and consumer level, and reduce food losses along production and supply chains (including post-harvest losses) by 2030.

Reducing and transforming food waste will be vital to feeding an additional 2.4 billion people by 2050. Our aim is to maintain the greatest value in our food production process by prioritising efficiency to feed people first. Sending waste to landfill is a last resort and we will focus our efforts on minimising milk losses in wastewater generated in our production processes.

## UN Sustainable Development Goals



<sup>9</sup> Sustainability Victoria (2011) Food Waste Avoidance Studies 2010 and RaboDirect Financial Health Barometer 2017: Food and Farming Report

Source: Modified from the US Environmental Protection Agency Food Recovery Hierarchy



## Packaging and solid waste

In FY2016, the dairy manufacturing industry in Australia recorded a waste diversion rate of 72% and a 48.4% decrease in waste-to-landfill since FY2011. We have made steady reductions to our waste-to-landfill intensity over the past few years. While we generated more waste this year, we were also able to increase our recycling and reduce waste-to-landfill. We aim to improve our own waste diversion and recycling rate to 68% next year.

Bega Cheese remains committed to reducing waste to landfill and continues to seek opportunities to eliminate waste and increase recycling at each stage of the value chain from design, procurement and manufacturing, through to post-consumer waste. Our diverse range of products present equally diverse challenges. Our manufacturing sites in regional areas are not as well serviced by industrial recyclers as those in urban Australia where the range of options and scale of recycling activity is much greater. Plastic film, for example, remains an issue for Bega Cheese and while it is technically possible to recycle this packaging product, the scale of waste generated is relatively small. Bega Cheese is reviewing options for recycling waste product film and expects to report progress in June 2018.

Our Procurement and Packaging Policy supports our commitment to sustainable business with specific objectives that aligns our procurement activities with the goals of our Environment Policy:

- Comply with the Australian Packaging Covenant and follow its sustainable packaging principles
- Implement sustainable procurement and packaging development practices
- Continually improve packaging systems to achieve our environmental goals.

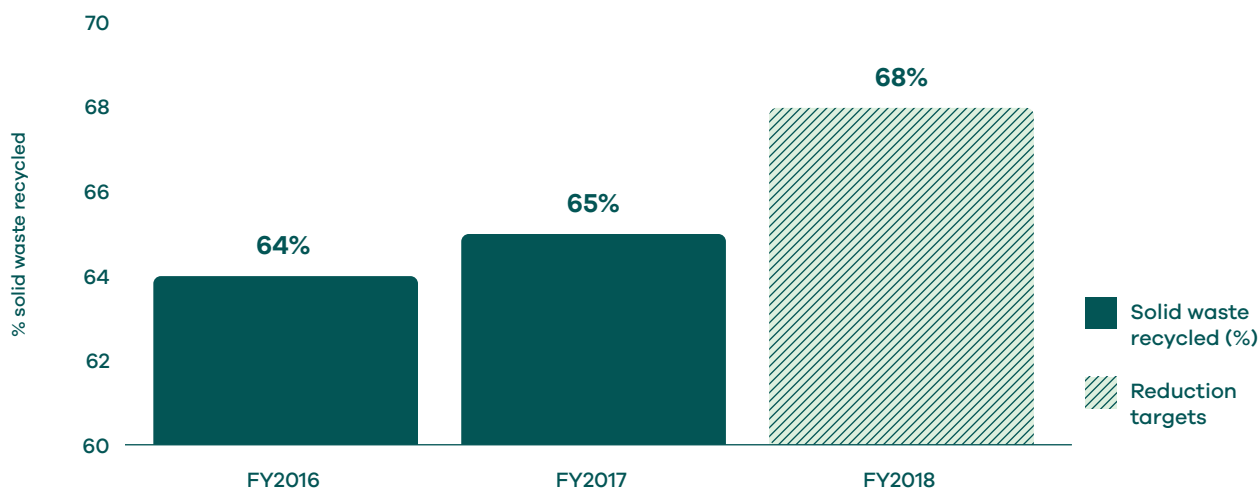
Policy objectives are incorporated into Bega Cheese's Supplier Relationship Management Program (SRM) with key packaging suppliers. The SRM program covers a number of areas including cost reduction, continuous improvement, supplier performance, innovation and account management.

Bega Cheese has been a signatory to the Australian Packaging Covenant (APC) since 2002 and we update our action plan to reduce waste generated from packaging each year. Under the action plan we undertake a range of activities including reviews of any new Bega branded packaging against sustainable packaging guidelines, and optimising carton sizes and specifications. Our current action plan and report can be downloaded from the APC website <https://www.packagingcovenant.org.au/>

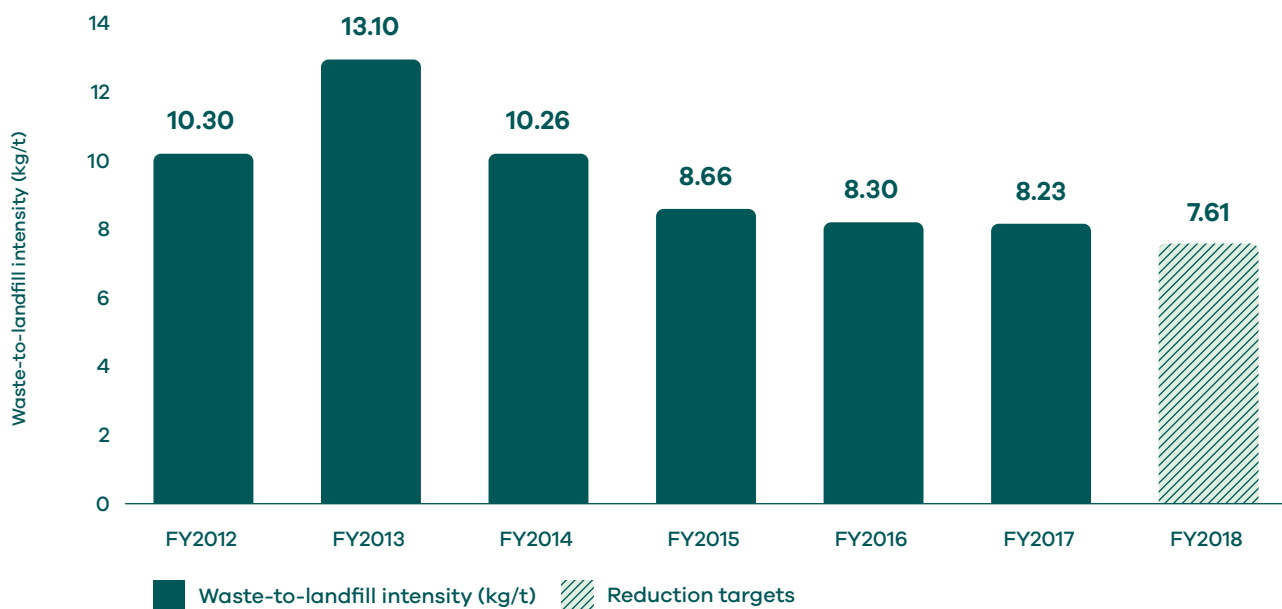
## Solid waste across financial years

Solid waste (kgs/tonne of product produced)	FY2015	FY2016	FY2017
Non-hazardous waste	23.3	23.4	24.6
Recycling	14.6	15.1	16.4
Landfill	8.7	8.3	8.2

## Percent of solid waste recycled



## Waste-to-landfill intensity



### Plans for FY2018

- Increase solid waste recycling to 68%
- Achieve a waste intensity target of 7.61 kg/t



# Glossary

## Terms

- ADISF**  
Australian Dairy Industry Sustainability Framework
- APC**  
Australian Packaging Covenant
- BEMS**  
Bega Cheese Environmental Management System
- EBITDA**  
Earnings before interest, taxes, depreciation and amortisation
- DPI Water IPART NSW**  
Department of Primary Industries Water Independent Pricing and Regulatory Tribunal
- GRI**  
Global Reporting Initiative
- HACCP**  
Hazard analysis and critical control points
- KPI**  
Key performance indicator
- TMI**  
Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese
- Scope 1**  
Emissions that result directly from onsite activities such as the combustion of fossil fuels
- Scope 2**  
Emissions that result indirectly from the consumption of electricity generated off-site

## Units

- CO<sup>2</sup>e**  
Carbon dioxide equivalent, a standard unit for measuring carbon. The amount of a greenhouse gas that a business emits is measured as an equivalent amount of carbon dioxide which has a global warming potential of one
- GJ**  
Gigajoule, equal to one billion (10<sup>9</sup>) joules of energy
- kg**  
Kilogram, unit of mass equal to 1,000 grams
- kl**  
Kilolitre, a unit of volume equivalent to 1,000 litres
- LTIFR**  
Lost Time Injury Frequency Rate calculated as the number of lost-time injuries relative to the total number of hours worked during the reporting period
- MI**  
Megalitre, a unit of volume equivalent to one million litres
- MJ**  
Megajoule, equal to one million (10<sup>6</sup>) joules of energy
- t**  
Tonne, unit of mass equal to 1,000 kilograms
- TRIFR**  
Total Recordable Injury Frequency Rate calculated as injuries relative to the number of hours worked during the reporting period

# GRI Content index

GRI Standard	Disclosure <sup>10</sup>	Page number(s)	Omission
<b>GRI 101: Foundation 2016</b> <b>GRI 102: General Disclosures 2016</b>			
GRI 102: General Disclosures 2016	102-1 Name of the organisation	Page 2	
	102-2 Primary brands, products, and services	Page 11	
	102-3 Location of the organisation's headquarters	Page 71	
	102-4 Number of countries where the organisation operates	Page 11	
	102-5 Nature of ownership and legal form	Pages 2 and 8	
	102-6 Markets served: geographic locations, sectors served, types of customers and beneficiaries	Page 11	
	102-7 Scale of the organisation	Pages 4-5, 10-11, 34-35, 37	
	102-8 Total number of employees by employment contract (permanent and temporary), by gender	Page 41	
	102-9 A description of the organisation's supply chain	Pages 12 and 26-27	
	102-10 Significant changes to the organisation's size, structure, ownership, or supply chain	Page 4, 5 and 8	
	102-11 Whether and how the organisation applies the Precautionary Principle or approach	Page 18	
	102-12 A list of externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses	Page 16	

<sup>10</sup> Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>



GRI Standard	Disclosure <sup>11</sup>	Page number(s)	Omission
<b>GRI 102: General Disclosures 2016</b>			
	102-13 A list of the main memberships of industry or other associations, and national or international advocacy organisations	Page 16	
	102-14 A statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy for addressing sustainability	Page 4-5	
	102-15 A description of key impacts, risks, and opportunities	Page 20	
	102-16 A description of the organisation's values, principles, standards, and norms of behaviour	Pages 8 and 18	
	102-18 Governance structure of the organisation	Page 18	
	102-40 A list of stakeholder groups engaged by the organisation	Pages 22-23	
	102-41 Percentage of total employees covered by collective bargaining agreements	Page 40	
	102-42 The basis for identifying and selecting stakeholders with whom to engage	Page 22	
	102-43 The organisation's approach to stakeholder engagement	Page 22-23	
	102-44 Key topics and concerns raised.	Pages 22-23	
	102-45 Entities included in the consolidated financial statements	Page 2 See also Bega Cheese Annual Report 2017, Page 39	
	102-46 Defining report content and topic boundaries	Page 21	
	102-47 A list of material topics	Page 20	
	102-48 Restatements of information	Page 2	
	102-49 Changes in reporting	Page 20	
	102-50 Reporting period	Page 2	
	102-51 Date of most recent report	Page 2	
	102-52 Reporting cycle	Page 2	

<sup>11</sup> Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>

GRI Standard	Disclosure <sup>12</sup>	Page number(s)	Omission
<b>GRI 102: General Disclosures 2016</b>			
	102-53 Contact point for questions regarding the report	Page 2	
	102-54 Claims of reporting in accordance with the GRI Standards	Page 2	
	102-55 GRI content index	Pages 65-68	
	102-56 External assurance	Page 2	
<b>Material Topic – Customer Health and Safety</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 48	
	103-2 The management approach and its components	Page 48	
	103-3 Explanation of how the organisation evaluates the management approach	Page 48	
GRI 416-2	Incidents of non-compliance concerning the health & safety impacts of products and services	Page 48	
<b>Material Topic – Water</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 58	
	103-2 The management approach and its components	Page 58	
	103-3 Explanation of how the organisation evaluates the management approach	Page 58	
GRI 303-1	Water withdrawal by source	Page 58	
<b>Material Topic – Supplier Environmental Assessment</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 26-27	
	103-2 The management approach and its components	Pages 26-27 and 30	
	103-3 Explanation of how the organisation evaluates the management approach	Pages 26-27 and 30	
GRI 308-2	Negative environmental impacts in the supply chain and actions taken	Pages 26-27	

<sup>12</sup> Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>



GRI Standard	Disclosure <sup>13</sup>	Page number(s)	Omission
<b>Material Topic – Environmental compliance</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 52-53	
	103-2 The management approach and its components	Page 52-53	
	103-3 Explanation of how the organisation evaluates the management approach	Page 52-53	
GRI 307-1	Non-compliance with environmental laws and regulations	Page 53	
<b>Material Topic – Energy</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 53-54	
	103-2 The management approach and its components	Pages 53-54	
	103-3 Explanation of how the organisation evaluates the management approach	Pages 53-54	
GRI 302-1	Energy consumption within the organisation	Page 54	
GRI 302-3	Energy intensity	Page 54	
<b>Material Topic – Occupational Health and Safety</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 42	
	103-2 The management approach and its components	Page 42	
	103-3 Explanation of how the organization evaluates the management approach	Page 42	
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities	Pages 44-45	Information unavailable by gender and workers who are not employees
<b>Material Topic – Emissions</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 56	
	103-2 The management approach and its components	Page 56	
	103-3 Explanation of how the organization evaluates the management approach	Page 56	
GRI 305-1	Direct (Scope 1) GHG emissions	Page 57	
GRI 305-2	Direct (Scope 2) GHG emissions	Page 56	
GRI 305-4	GHG emissions intensity	Page 56	

<sup>13</sup> Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>





# Notes



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**Tatura Dairy Processing Unit**

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**Strathmerton – Process, Cut & Packaging Unit**

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## Sustainability Report 2017

[www.begacheese.com.au](http://www.begacheese.com.au)