2018 Bega ANNUAL REPORT

BEGA CHEESE LIMITED

HEFFERNAN DAIRY FARM "BROOKVALE", BEGA NSW

CONTENTS

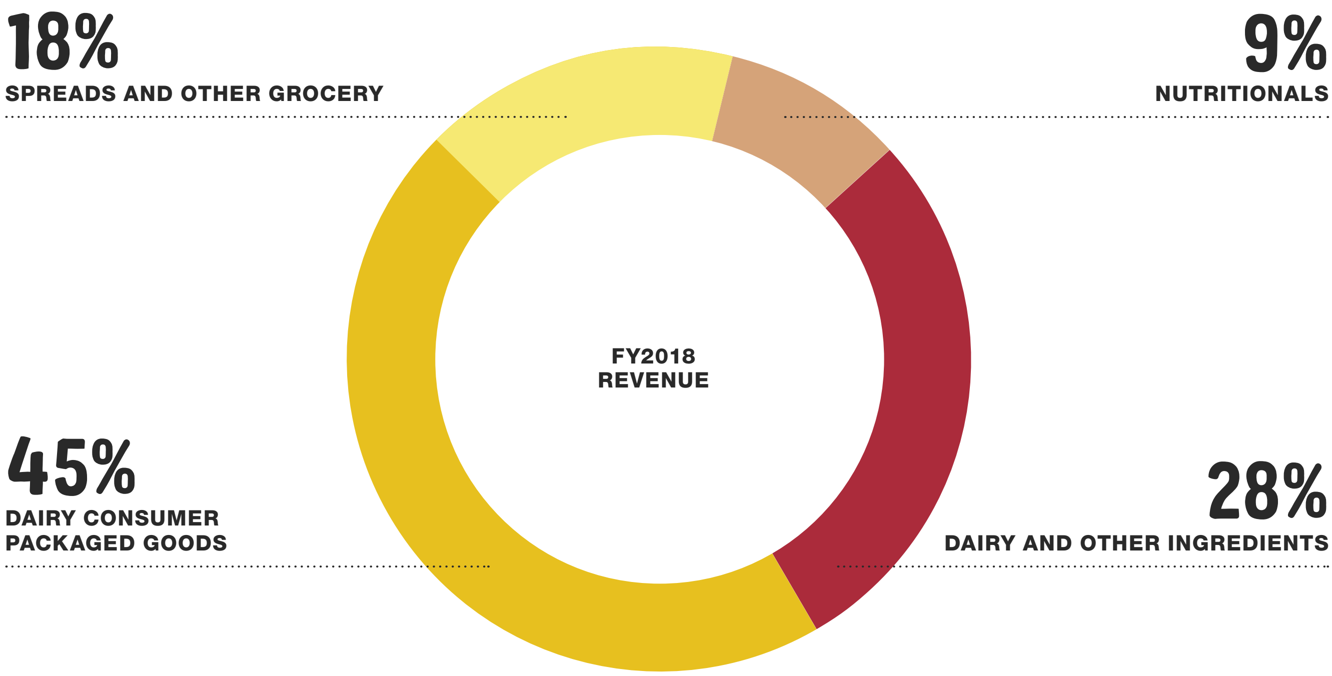
PERFORMANCE HIGHLIGHTS

1,438 million
FY2018

1,227 million
FY2017

REVENUE

Revenue has increased by $211 million, or 17%, compared to the prior year, with the new Bega Foods business contributing the majority of this revenue growth. There was a change in the mix of Bega Cheese Group revenue (excluding Bega Foods), with private label cheese sales down (loss of Coles contract), export consumer and food service products up and infant formula sales stabilising at more normalised levels.



30%
INTERNATIONAL ALL BUSINESS UNITS

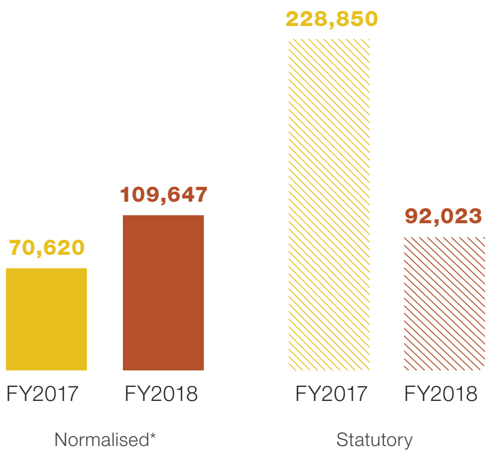
BEGA INTERNATIONAL

Export sales totalling $425 million, being an increase of 29% on the prior year, comprised 30% of total sales. Bega Cheese Group is committed to expanding our impressive range of dairy ingredients, nutritional and core food products around the world as we leverage the strength of our brands.

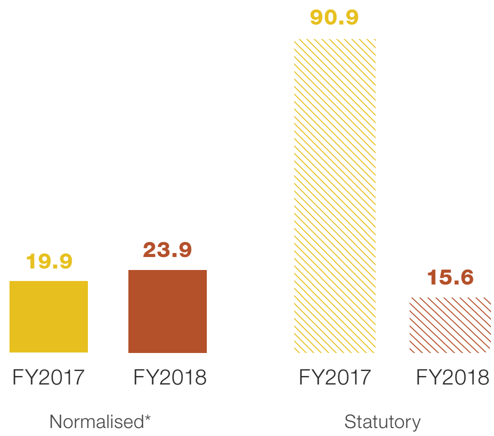
FINANCIAL RESULTS

The statutory result for each of FY2018 and FY2017 included a number of material non-recurring items, which in FY2018 related primarily to business acquisitions and other corporate activity and in FY2017 related primarily to a capital profit on sale of nutritional assets (FY2017: $178 million before tax) and business acquisitions. On a statutory basis for FY2018 earnings before interest, tax, depreciation and amortisation (EBITDA) was $92.0 million, profit before tax (PBT) was $50.9 million and profit after tax (PAT) was $28.8 million. On a normalised basis for FY2018 EBITDA was $109.6 million (up 55%), PBT was $69.0 million (up 60%) and PAT was $44.0 million (up 45%).

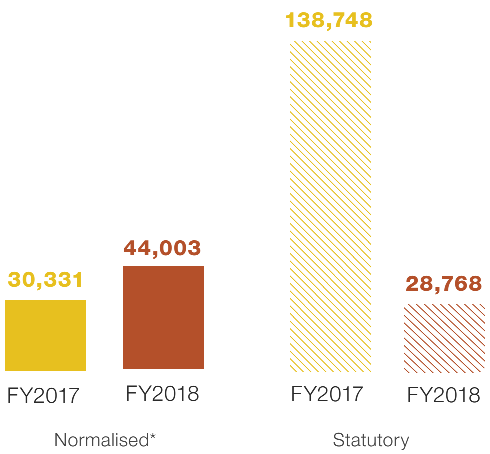
EBITDA ($'000)



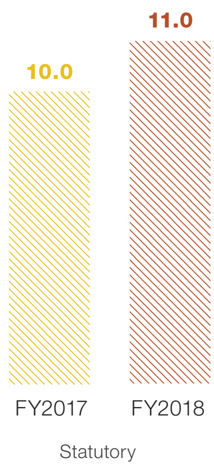
BASIC EARNINGS PER SHARE (CENTS)



PROFIT AFTER TAX ($'000)



TOTAL DIVIDEND PER SHARE (CENTS)



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

PRODUCTION VOLUME (TONNES)

Production has increased by 9%, compared to the prior year, benefiting from the additional volume manufactured at the Vegemite Way, Port Melbourne facility. Cheddar cheese production decreased due to private label mix, offset by an increase in cream cheese, dairy powders and other dairy ingredients, optimising the utilisation of the additional 97 million litres of milk from direct suppliers.

259,235
FY2018

236,928
FY2017

TOTAL DIVIDEND PER SHARE (CENTS)

Bega Cheese Group has declared a final dividend of 5.5 cents per share, taking the total dividend relating to FY2018 up to 11 cents per share. This represents a total payment of $20.4 million, being 46% of the normalised profit after tax and an increase of $1.9 million, or 10%, on the prior year.

EXECUTIVE CHAIRMAN'S REVIEW

The strength, resilience and strategic focus of the Bega Cheese Group has once again been demonstrated in FY2018. It is pleasing to report that Group revenue of $1.44 billion was up on the prior year by 17%, delivering a normalised EBITDA of $109.6 million, up 55% and a normalised profit after tax (PAT) of $44.0 million, up 45%.

This strong underlying performance delivered normalised earnings per share of 23.9 cents, up 20% and a 10% increase in dividend for the full year to 11 cents per share (final dividend 5.5 cents per share). It has been an important year strategically for the Company. We have now fully integrated the Mondelēz Grocery Business into the Bega Cheese Group following completion of the acquisition on 4 July 2017. The Mondelēz Grocery Business (now known as Bega Foods) has also been combined with our international branded and food service business and the recently acquired the Peanut Company of Australia (PCA) business.

The acquisition of PCA is consistent with the Group's approach to our supply chain and reaffirms our strategy and belief that customers who purchase our products are increasingly focusing on the origin of their food and the sustainability of resource use and farming practice.

The Group's expanded business profile means that we have significant capacity and capability across dairy ingredients, nutritionals, retail dairy products and spreads (Vegemite and peanut butter). The strategy of building a dairy and food business capable of servicing customers and consumers in Australia and around the world with competitively priced, high quality dairy and food products whose provenance comprises prime dairy and agriculture regions in Australia continues to be successfully implemented.

"The Group has well developed market channels both in Australia and internationally, a growing milk pool and significant capacity within our integrated facilities"

In a highly competitive milk acquisition environment, the Bega Cheese Group has successfully added 97 million litres of milk to the business from direct suppliers driving growth in our dairy ingredients business. Our knowledge, dairy business reputation and long-term relationships with our dairy farmers gave us confidence to participate in the corporate opportunity brought about by the sale of Murray Goulburn Cooperative Co Limited (Murray Goulburn). Although we were not successful in that opportunity we were delighted to announce on 17 August 2018 we had been successful in acquiring one of Murray Goulburn's largest facilities, located at Koroit in western Victoria. The Koroit dairy manufacturing facility has significant capacity in butter, milk powders and nutritionals, which complements our existing dairy infrastructure and provides us with a strong position in one of Australia's largest dairy regions.

The Group's dairy business is now well positioned for future growth with a product range that includes cheddar, processed, mozzarella and cream cheese, butter, infant formula, milk powders and nutritionals. The Group has well developed market channels both in Australia and internationally, a growing milk pool and significant capacity within our integrated facilities.

While we continue to face some short-term challenges in our food business, which includes legal disputes with both Kraft-Heinz and Fonterra, we have made strong investments to ensure success. We have been delighted with the successful integration of the Bega Foods business into the broader Bega Cheese Group. The addition of our international branded and food service business and the acquisition of PCA has further strengthened this business to create great opportunities for our brands. We continue to see growth of the Bega brand internationally, have been delighted with the consumer response to Bega peanut butter and of course Vegemite is an Australian icon and we continue a program of reinvigoration for this Australian favourite.

The Group now operates eight manufacturing and value-added sites across three states, we have developed significant capability in our supply chain and operations. This year the Group produced 259,235 tonnes of dairy and food products, being an increase of 9% on the previous year.

The opportunity to create and grow a Great Australian Food Company is only possible because of the knowledge and effort of our staff and the support we receive from our suppliers, shareholders and the community. In Australian food and agriculture we are often dealing with challenging and changing circumstances as we compete with multinational companies both in Australia and around the world. We are exposed to volatility in the global commodity markets, changes in currency relativity, a consolidated Australian retail sector, significant climatic variation and uncertainty or tactical government policies on issues such as energy and water that significantly impact costs for all those in the supply chain from farmers to manufacturers and retailers.

As I have often stated, the circumstances outlined above can only be successfully navigated with a clear strategy and strong business values that include understanding the aims and objectives of all those stakeholders associated with the business.

The Group continues to be successful while ensuring that it builds on its heritage, works closely with its farmers, particularly in the areas of resource management and sustainability, is a valued community member supporting many charities and organisations helping those in need and remains agile and alert to business improvement and growth opportunities that create more value for our dairy farmer suppliers and shareholders.

It has been a significant year at Bega Cheese, the integration of Bega Foods, the acquisition and integration of PCA, the bid for Murray Goulburn and, post the close of FY2018, the acquisition of the Koroit dairy manufacturing facility have all been significant pieces of corporate activity that are strategically important, strengthen the Group's capacities and capability and take us further towards the goal of creating the Great Australian Food Company.

It is important to recognise the efforts of our staff who continue to remain focussed on ensuring the business performance is always improving and that our business values are always met. I would particularly like to acknowledge the efforts of Paul van Heerwaarden and his leadership team in delivering the financial performance and business growth this year. Personally, I would like to thank all Bega Cheese Group staff, the leadership team, Board, customers, suppliers and shareholders for their support in what has been an important year in the Bega Cheese story.

B.A. I

Barry Irvin AM
Executive Chairman
29 August 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

Bega Cheese Group has delivered a strong result in what has been a productive year of growth and transition. The acquisitions of the Mondelēz Grocery Business and PCA have been integrated and provide us with an expanded range of products and capabilities that will continue to support growth in both local and international markets. These acquisitions along with our core dairy and nutritional businesses provide the base for us to achieve our vision of becoming the Great Australian Food Company. The year also saw further consolidation in the dairy industry with the sale of the Murray Goulburn business to Saputo Dairy Australia Pty Ltd (Saputo) and the subsequent acquisition by us of the Koroit dairy facility which Saputo were required to divest as part of an undertaking to the Australian Competition and Consumer Commission (ACCC). I am looking forward to welcoming our new colleagues and suppliers from Koroit and the opportunity we have to grow this business.

MARKETS AND CUSTOMERS

Revenue of $1.44 billion grew by 17% compared to the prior year predominantly due to the acquisition of Bega Foods and an increase in the volume of milk processed which supported further growth of our cream cheese and mozzarella businesses. Our infant formula business has stabilised following the challenges of the prior year whilst our contract packing and private label businesses continues to come under pressure.

The Bega Foods acquisition was completed on 4 July 2017 and with Vegemite back in Australian hands, marketing plans were accelerated with the launch of Blend 17 and personalised jars for Christmas. January saw a national sponsorship of the Australian Open tennis, along with sponsorship of one of Australia's brightest young talents Ash Barty. The sporting connection continued with the Cadel Evans Great Ocean Road race before focus moved onto licensing opportunities with the launch of Vegemite flavoured Boost juice and Vegemite popcorn in Village Cinemas has opened new channels and occasions for Vegemite. July 2018 saw the launch of the "Tastes like Australia" campaign for Vegemite which we are very excited about. The initial response from consumers has been outstanding and we look forward to further supporting and investing in this uniquely Australian brand. The year also saw the successful transition of several products into Bega and ZoOsh portfolios with peanut butter, dips and sauces being relaunched under these brands. The "Australia's Favourite Peanut Butter" campaign was launched to promote Bega branded peanut butter and ZoOsh, which has broken new ground through sponsorships with My Market Kitchen and The Cook's Pantry.

In January 2018 we finalised the acquisition of PCA. Founded in 1920 and based in Queensland, PCA is the main supplier of peanuts for our peanut butter product range. Our objective for PCA is to grow the size of the domestic crop to support the provenance claim for our range of peanut products. Our consumers are concerned with where their food comes from and with the acquisition of PCA and our relationship with peanut growers, we can provide traceability and quality assurance. The acquisition also includes the Picky Picky branded range of flavoured roasted peanuts that are available both domestically and in several export markets.

"with Vegemite back in Australian hands, marketing plans were accelerated"

The domestic consumer cheese market continues to grow in volume and value as consumers seek the natural goodness of dairy. Strong brands such as Bega continue to be sought after by consumers looking for a trusted product of premium quality. Our focus on the supply of premium quality cheese plays a large part as to why Bega branded cheese, with retail sales of over $244 million, remains the number one retail cheese brand in Australia. Whilst the market for private label is very competitive it does provide the consumer with a value offering and plays an important role within the category. We have invested in state of the art equipment and continue our focus on efficiency through our continuous improvement program to ensure that we are competitive.

Our export of branded products remains strong, predominantly the result of accelerated growth in South East Asia and moderate growth in North Asia. Global expansion of burger and pizza fast food outlets has seen demand increase for processed cheese and mozzarella products, whilst the expanding bakery and pastry market has strengthened demand for cream cheese. These trends have attracted many global suppliers, making markets highly competitive. This has also been evident in the retail channel. Differentiation in our offerings, product innovation and service levels continue to be important to, not just attract but, retain a growing consumer and customer base.

Following the challenges of the prior year and the sale of a dryer and canning facility to Mead Johnson Nutrition, FY2018 was a year of consolidation and solid performance for our infant formula business. The commencement of direct sourcing of organic milk to replace imported powder has improved our competitiveness and provided our customers with provenance, improved traceability and quality assurance. We have also benefited from improved conditions and stability in key export markets. Our infant formula business is an important contributor to both our financial performance and growth. The acquisition of the Koroit dairy facility and its nutritional powder capacity and capability will continue to support this.

In recent years there has been a significant increase in global lactoferrin capacity and production which resulted in an oversupply coupled with a softening in demand mainly from China. FY2018 saw a recovery in the lactoferrin market with increased demand and pricing providing strong returns. In May 2018 at the Vitafoods Europe expo in Geneva we launched Inferrin™ which is a lactoferrin based product that uses patented microencapsulation technology which increases the bio-availability particularly for adults. Inferrin™ has been several years in the making and is the first of several developments in our bio-nutrient product range.

MILK SUPPLY

The Group opened with a strong milk price in FY2018 and maintained a competitive position for the duration of the season. Overall milk collected from dairy farmer suppliers totalled 750 million litres. This was a 15% increase compared to FY2017 due to a combination of new supply and more favourable seasonal conditions.

I would like to acknowledge the efforts of the milk supply services team, who have welcomed and transitioned our new dairy farmer suppliers. The team has completed the on-farm sustainability and growth initiatives and introduced Bega Better Farms and Bega Supply Premiums to assist all of our dairy farmer suppliers, which will support the economic activity of the business and our future growth.

The Bega Better Farms program was launched in April 2018 to further support our dairy farmer suppliers. Over the next three years the Bega Better Farms program will continue to support suppliers to meet regulatory compliance as well as improve the long-term resource sustainability and efficiency of their businesses.

We continue to focus on being a company of choice for dairy farmers and maintaining our reputation that is based on trust, transparency and consistency. Our business is dependent on a sustainable milk supply and we remain committed to delivering outcomes for our dairy farmer suppliers that create a sustainable future for us all.

SUPPLY CHAIN

A key initiative this year was the implementation of a continuous improvement program that has yielded sustained benefits across our manufacturing and supply chain network. We invested in resources and systems to develop the culture and capability required to realise the improvements and importantly ensure they are sustained. A focus on increased productivity and capacity, improved yields and waste reduction realised significant cost savings and supported the processing of increased milk volumes. A review of supply chain costs including procurement and our transport and warehouse network provided further cost reductions.

Several other initiatives were undertaken across our supply chain which resulted in a significant reduction in our environmental impact and are aligned with our longer-term sustainability objectives. These initiatives included an investment in cream silos at Tatura to reduce cream losses, reducing potable water usage by 12% per tonne of product at Bega and the development of an energy roadmap and identification of energy saving opportunities at each site. We have also successfully completed the first two stages of implementing the new Enterprise Resource Planning (ERP) system across the business.

PEOPLE

Our annual safety performance continues to improve with a 36% reduction in total recordable injury frequency rate (TRIFR) and an increased emphasis on reducing risk exposure through investment in our people and sites. During the year we continued our focus on embedding a culture of safety with the first wave of line leaders and managers from six sites participating in a behavioural safety program designed to improve engagement with our employees and build capability in recognising, understanding and minimising our exposure to risk. We are committed to eliminate injuries as we strive to achieve a TRIFR of zero.

We have continued to evolve the business unit structure with centralised services to better align with our markets and customers, to more readily find opportunities to improve efficiency, to enhance and speed up decision making, to enable greater accountability and to develop new leaders for challenging senior roles in the future.

A review of diversity and inclusion has led to several initiatives aimed at leveraging the individual strengths of our employees, developing employees to achieve their potential, understanding their needs, removing barriers to equal participation and building a stronger sense of community. We also introduced the Aspire development program which is aimed at developing capable, energetic and passionate leaders emerging in the business who will be central to fulfilling our future growth aspirations. This program will continue next year and be introduced to a broader group of future leaders across the company.

Our strong performance along with the acquisition and integration of Bega Foods and PCA, would not have occurred without the dedication and commitment of our employees. I would like to thank and recognise the contribution of our 2,000 employees including the 400 employees who joined us this year through the two acquisitions.

OUTLOOK

Whilst the domestic retail market remains highly competitive we are well positioned to take advantage of several trends. Consumers are increasingly concerned with food safety, provenance and nutrition. We are changing the way we purchase food and the frequency and way we consume food. Our marketing team provides the relevant consumer insights and, along with our product development capability and flexibility in manufacturing, allows us to quickly respond to these trends.

Despite the deteriorating relationship between the United States and China and the subsequent political uncertainty does cause concern, increasing demand from Asia for high quality food products continues to provide opportunities for both our dairy and non-dairy businesses. Free trade agreements with countries including China, Japan and South Korea continue to improve our access and competitiveness with suppliers from Europe and North America. The product range we can offer through our branded consumer and food service businesses is enhanced with the recent acquisitions and we will continue to invest in these markets to support further growth.

"We introduced Bega Better Farms and Bega Supply Premiums to assist all of our dairy farmer suppliers"

We welcome further consolidation in the Australian dairy industry but we need to address the industry wide challenge and encourage milk supply growth. Milk supply in Australia has been relatively flat for the past decade with on farm cost pressures exacerbated by increased risks and uncertainty from climate change and global dairy commodity cycles that have increased in frequency. We will continue to seek to understand what we must do to provide a milk pricing system that encourages growth in supply and better supports decision making and sustainable on farm profitability. We are committed to making further progress in the year ahead.

Paul van Heerwaarden
Chief Executive Officer
29 August 2018

REVIEW OF FINANCIAL PERFORMANCE AND OPERATIONS

KEY HIGHLIGHTS

FY2018 represented another successful year for the Group, as evidenced below.

Sound underlying financial performance

After adjusting for material one-off items, Bega Cheese Group generated top line revenue of $1.44 billion, up 17%, EBITDA of $109.6 million, up 55%, normalised profit after tax of $44.0 million, up 45% and normalised earnings per share of 23.9 cents, up 20%.

Milk supply in competitive environment

The Group supported our milk suppliers during a period of significant disruption in the Australian dairy industry, acknowledging the loyalty and trust of traditional milk suppliers and welcoming new suppliers as Bega Cheese Group received 750 million litres of milk during the year, being an increase of 15% on the prior year, in a very competitive and volatile year for the Australian dairy industry.

Acquired Mondelēz Grocery Business

On 4 July 2017 we completed the acquisition of the Mondelēz Grocery Business (Bega Foods) for consideration of $452.7 million, welcomed the new Bega Foods team who bring a wealth of experience to Bega Cheese Group, absorbed its fantastic portfolio of products, including the iconic Vegemite brand, and transitioned brands on a number of important products, including the Bega brand onto peanut butter.

Strengthened balance sheet through capital raising

On 8 August 2017 we completed stage two of a major capital raising through a Share Purchase Plan (SPP), which followed on from a very successful Institutional Placement completed on 26 June 2017, both of which contributed significantly to funding the Bega Foods acquisition.

Vertical integration into Australian-sourced peanuts

On 25 January 2018 we completed the acquisition of Peanut Company of Australia (PCA) for consideration totalling $11.9 million before transaction costs and consolidated the financing requirements of this business into the core debt facilities of Bega Cheese Group.

Pursued acquisition of the Koroit facility to drive industry consolidation

We continued to review opportunities to grow by acquisition, including a detailed assessment of the Murray Goulburn opportunity, which positioned Bega Cheese Group to then participate in Saputo's sale of the Koroit dairy manufacturing facility, which was completed subsequent to year end on 17 August 2018.

Servicing Mead Johnson Alliance

We worked closely with Mead Johnson (MJN) as both parties progressively refined the details under which the MJN Alliance operates.

Responded to market circumstances and customer demand

We proactively addressed dynamic changes in the infant formula market, as Australian and other global infant suppliers addressed regulatory changes in China whilst also managing an important change in customer mix in the cheese business.

Investing for the future

We invested in a number of capital expenditure projects that increased overall capacity and efficiency in the manufacture of core natural cheese slices, shredded cheese and cream cheese.

Enterprise Resource Planning (ERP) system

Significant progress was made in relation to a new ERP system to service Bega Cheese Group, with the successful launch of the system across the Bega Foods business and progressive design, development and rollout of the system across the Bega Cheese and Tatura businesses into FY2019.

Evolving organisational design

Through another very active period of industry challenges and corporate activities the Board and management team continued the focus on core business activities, suppliers and customers as a new organisational design was established across the business.

Focus on costs

Notwithstanding the significant corporate activity throughout the year, the Group was able to extract significant operational efficiency, procurement and other cost savings throughout the year under a targeted continuous improvement program that will deliver ongoing cost savings beyond the current financial year.

REVIEW OF FINANCIAL PERFORMANCE

As in prior years, the Group will report on both the statutory result and the normalised result for FY2018 compared to the prior year, with the focus of commentary being on the normalised result, representing the continuing operations of the Group.

GROUP STATUTORY RESULT FY2018

On a statutory reporting basis, Bega Cheese Group generated:

- earnings before interest, tax, depreciation and amortisation (EBITDA) of $92.0 million, compared to $228.9 million in FY2017, being a decrease of 60%
- earnings before interest and tax (EBIT) of $60.7 million compared to $200.8 million in FY2017, being a decrease of 70%
- profit before tax (PBT) of $50.9 million, compared to $198.0 million in FY2017, being a decrease of 74%
- profit after tax (PAT) of $28.8 million, compared to $138.7 million in FY2017, being a decrease of 79%
- earnings per share (EPS) of 15.6 cents, compared to 90.9 cents in FY2017, being a decrease of 83%.

GROUP NORMALISED RESULT FY2018

The statutory result for Bega Cheese Group in each of FY2018 and FY2017 included a number of one-off items, most of which related to corporate activity. These items each had a material one-off financial impact on the statutory performance of the Group that do not reflect the financial performance of the ongoing underlying business. In order to provide a more meaningful understanding of the underlying financial performance of the Group, normalising adjustments have been made to the statutory financial statements for each of these items, which have been set out in more detail in the table on page 11. On a normalised basis Bega Cheese Group generated:

- EBITDA of $109.6 million, compared to $70.6 million in FY2017, being an increase of 55%
- EBIT of $78.9 million compared to $45.9 million in FY2017, being an increase of 72%
- PBT of $69.0 million, compared to $43.2 million in FY2017, being an increase of 60%
- PAT of $44.0 million, compared to $30.3 million in FY2017, being an increase of 45%
- EPS of 23.9 cents, compared to 19.9 cents in FY2017, being an increase of 20%.

MATERIAL ITEMS IMPACTING GROUP NORMALISED RESULT FY2018 AND PRIOR YEAR

Summarised below are the material one-off items that have impacted the underlying normalised result for the Bega Cheese Group in each of FY2018 and FY2017.

One-off items in FY2018

- the Group completed the purchase of Bega Foods business on 4 July 2017, which incurred a number of one-off transaction costs (including stamp duty and other costs) totalling $12.9 million before tax in FY2018
- inventory purchased on acquisition of Bega Foods was uplifted to fair value which includes margin. The reduction of this margin in the year has been treated as a normalising adjustment
- completed the purchase of PCA on 25 January 2018, which incurred a number of one-off transaction costs (including stamp duty, legal and advisory fees and other costs) totalling $3.1 million before tax
- based on preliminary valuations, the purchase price paid by Bega Cheese for PCA was less than the fair value of the underlying assets and liabilities acquired, resulting in a gain on bargain purchase of $4.4 million
- on 17 August the Group acquired the Koroit dairy manufacturing facility from Saputo for $250.0 million, which incurred a number of one-off transaction costs totalling $0.8 million before tax prior to the end of FY2018, with further transaction costs to be incurred in FY2019, including transitional costs, stamp duty, legal and advisory fees and other costs
- other one-off costs totalling $2.0 million before tax included costs incurred in responding to an inquiry conducted by ACCC into the Australian Dairy Industry and legal costs relating to a matter initially brought against Bega Cheese Group in a foreign-jurisdiction but which, at the direction of Australian Courts, has now been withdrawn.

One-off items in FY2017

- the Group incurred legal, financial and corporate advice and transaction costs relating to the acquisition of the Mondelēz Grocery Business totalling $11.5 million before tax
- on 24 April 2017 the Group completed the sale of infant nutritional assets to Mead Johnson and formed the MJN Alliance, which resulted in a material capital gain of $177.8 million after transaction costs and before tax
- incurred an impairment relating to infant formula inventory specific to the Bemore Partnership with Blackmores Limited totalling $8.1 million before tax.

CONSOLIDATED	Per Financial Statements $'000	Bega Foods Acquisition Costs & Fair Value Adjustment $'000	PCA Acquisition Costs $'000	PCA Bargain Purchase $'000	Koroit Acquisition Costs $'000	Other Costs $'000	Normalised Outcome $'000
Period ending 30 June 2018							
Revenue	1,438,281	-	-	-	-	-	1,438,281
Cost of sales	(1,166,329)	3,733	-	-	-	-	(1,162,596)
Gross profit	**271,952**	**3,733**	-	-	-	-	**275,685**
EBITDA	92,023	16,602	3,142	(4,426)	800	1,506	109,647
Depreciation, amortisation and impairment	(31,317)	-	-	-	-	528	(30,789)
EBIT	60,706	16,602	3,142	(4,426)	800	2,034	78,858
Finance costs	(9,822)	-	-	-	-	-	(9,822)
Profit before income tax	**50,884**	**16,602**	**3,142**	**(4,426)**	**800**	**2,034**	**69,036**
Income tax expense	(22,116)	(1,780)	(445)	-	(240)	(452)	(25,033)
Profit for the year	**28,768**	**14,822**	**2,697**	**(4,426)**	**560**	**1,582**	**44,003**
Gross margin - percentage	**18.9%**						**19.2%**
Basic earnings per share - cents	**15.6**						**23.9**

CONSOLIDATED	Per Financial Statements $'000	Bega Foods Acquisition Costs $'000	Sale of Nutritionals Assets $'000	Asset Impairments $'000	Inventory Losses $'000	Normalised Outcome $'000
Period ending 30 June 2017						
Revenue	1,226,663	-	-	-	-	1,226,663
Cost of sales	(1,072,436)	-	-	-	8,085	(1,064,351)
Gross profit	**154,227**	**-**	**-**	**-**	**8,085**	**162,312**
EBITDA	228,850	11,518	(177,833)	-	8,085	70,620
Depreciation, amortisation and impairment	(28,023)	-	-	3,347	-	(24,676)
EBIT	200,827	11,518	(177,833)	3,347	8,085	45,944
Finance costs	(2,789)	-	-	-	-	(2,789)
Profit before income tax	**198,038**	**11,518**	**(177,833)**	**3,347**	**8,085**	**43,155**
Income tax expense	(59,290)	(3,455)	53,350	(1,004)	(2,425)	(12,824)
Profit for the year	**138,748**	**8,063**	**(124,483)**	**2,343**	**5,660**	**30,331**
Gross margin - percentage	**12.6%**					**13.2%**
Basic earnings per share - cents	**90.9**					**19.9**

CASH FLOW, NET DEBT AND GROUP DEBT FACILITIES

CASH FLOWS

Operating activities: Bega Cheese Group generated net cash inflows from operating activities of $58.6 million in FY2018, compared to $70.2 million in FY2017. Factors impacting operating cash flows in FY2018 include:

- an increase in trade and other receivables of $36.4 million, of which approximately $16.8 million results from the Bega Foods and PCA acquisitions
- an increase in inventory of $16.8 million
- an increase in trade and other payables of $49.2 million, of which approximately $37.1 million results from the Bega Foods and PCA acquisitions.

Investing activities: Bega Cheese Group incurred net cash outflows from investing activities of $564.8 million in FY2018, which included the following substantial one-off items:

- payment of $478.3 million for acquisition of Bega Foods and PCA and related transaction costs
- payment of $53.4 million for capital gains tax applicable to the capital profit on sale of nutritional assets sold to MJN in FY2017
- payments totalling $46.6 million for capital expenditure and intangible assets relating to the ERP system.

Financing activities: In addition to the usual sources of funds through debt financing, Bega Cheese Group raised additional funds under a Share Purchase Plan Offer (SPP Offer). Under the SPP Offer, each eligible Bega Cheese shareholder was able to subscribe for up to $15,000 of new Bega Cheese shares, without incurring brokerage or transaction costs. The SPP Offer raised $50.0 million after transaction costs and resulted in an additional 9,561,404 ordinary fully paid shares being issued.

NET DEBT AT YEAR END

Bega Cheese Group had consolidated net debt of ($246.3) million as at 30 June 2018, compared to net cash on hand of $258.5 million as at 30 June 2017, with the significant turnaround in net debt being the result of the investing activities as outlined above, together with refinancing the PCA net debt and other financing liabilities within the existing Bega Cheese Group Syndicated Facility.

GROUP DEBT FACILITIES

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

In FY2017 the Syndicate Bankers and Bega Cheese Group entered into an updated Syndicated Facility which provided two additional tranches to support of the acquisition of the Mondelēz Grocery Business, being a revolving facility of $200 million with a two-year term and a fixed three-year term facility of $100 million. Including these facilities, Bega Cheese Group had $480 million in available debt facilities as at 30 June 2018, plus other minor overdraft and other incidental facilities.

Bega Cheese Group has continued to trade well within its facility limits throughout FY2018.

On 3 July 2018 the Syndicate Bankers and Bega Cheese Group entered into a Commitment Letter and a Bank Debt Mandate Letter and Terms Sheet which documented the basis under which the Syndicate Bankers provided Bega Cheese Group additional debt facilities of up to $310 million to enable it to proceed with the acquisition of the Koroit Facility from Saputo.

On 17 August 2018 the Syndicated Facility was updated to incorporate the undertakings of the additional debt facilities and other minor amendments in the usual course of business and executed between the Syndicate Bankers and Bega Cheese Group (New Syndicated Facility). The effect of the New Syndicate Facility was to increase the total available debt facilities to $790 million (plus minor overdraft and incidental facilities).

EXTRAORDINARY GENERAL MEETING

On 5 January 2018 Bega Cheese held an Extraordinary General Meeting to consider the issue of shares under the June 2017 Institutional Placement. At the EGM shareholders approved the previous issue of 22,890,441 ordinary shares in the Company at $5.35 per share under the Institutional Placement in June 2017, including for the purposes of ASX Listing Rule 7.4.

CAPITAL INVESTMENT

Capital investment totalled $45.9 million in FY2018 (FY2017: $40.8 million).

Capital expenditure totalling $28.5 million was invested in plant and equipment. The key projects that delivered enhanced production capacity and capability were as follows:

- Tatura commissioned an upgrade to cream processing and replaced several silos. This investment will improve our competitiveness and support the growth agenda
- to support our increased cream cheese processing capacity, an upgrade of our food service filling capacity was completed. Cream cheese continues to be a growth product for Bega Cheese Group and is a key focus in the international food service strategy
- a new processed block filling line was commissioned at the Strathmerton site which delivers greater flexibility and more capability to support growth.

Capital expenditure totalling $17.4 million was invested in a new ERP system, which commenced in FY2016. The ERP system was successfully deployed at Bega Foods during two phases through FY2018. During FY2019 the team are focussed on deployment across Bega Cheese and Tatura. The solution will allow additional efficiencies to be realised once full deployment is completed across the Group.

COMMENTARY ON INVESTING ACTIVITY

EXISTING INVESTMENTS

Bega Cheese Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra, with Lion Dairy and Drinks holding the other 75%.

Bemore is a joint operation (currently not trading) held equally by Bega Cheese Group and Blackmores Limited. Bemore was established in October 2015 to market, sell and distribute finished infant nutritional powders and other life stage dairy based nutritional powders in Australia and Asia.

INVESTMENT ACTIVITY IN FY2018 AND SUBSEQUENT TO YEAR END

Further details of the business acquisitions undertaken during FY2018 are provided in the Executive Chairman's review, the Chief Executive Officer's review and the financial statements and accompanying notes. Provided below is a summary of these major acquisition transactions.

Mondelēz Grocery Business

On 4 July 2017 Bega Cheese Group acquired the Mondelēz Grocery Business (Bega Foods). The acquisition was financed initially by proceeds on the sale of various nutritionals assets under the MJN Alliance and bank debt, part of which was paid down soon after completion as a result of:

- raising capital via an Institutional Placement which raised $122.5 million on 29 June 2017
- raising capital via a Share Purchase Plan which closed on 31 July 2017, raising $50.2 million.

Peanut Company of Australia

On 11 November 2017, Bega Cheese announced an unconditional takeover offer for all of the shares in PCA and the signing of a placement agreement and a bid implementation agreement with PCA. Under the placement agreement, Bega Cheese subscribed for 19.99% of the issued shares of PCA for $1.9 million. Under the bid implementation agreement, the balance of shares was acquired for $10.0 million.

On 25 January 2018 Bega Cheese completed the compulsory acquisition of the remaining shares in PCA in accordance with section 661A of the *Corporations Act 2001*.

The acquisition was funded by debt, available within the limits of the Syndicated Facility available to Bega Cheese Group at the time.

In early February 2018 Bega Cheese paid out PCA's existing bank debt and other related financing liabilities and incorporated the debt financing requirements for PCA under Bega Cheese Group Syndicated Facility, utilising part of the undrawn balance of this facility at that time.

Murray Goulburn

During FY2018 Bega Cheese actively engaged in a detailed review of the Murray Goulburn business as an acquisition opportunity. Bega Cheese Group's proposal to acquire Murray Goulburn was ultimately not accepted and on 27 October 2017 Murray Goulburn announced that it had entered into a binding agreement to sell its business to Saputo.

The Group incurred a number of one-off advisory, legal and due diligence costs in undertaking its review of Murray Goulburn in FY2018.

Koroit Dairy Manufacturing Facility

During Bega Cheese Group's review of the Murray Goulburn business it became familiar with the Koroit dairy facility and promptly engaged in a review of that asset as a stand-alone acquisition opportunity under a sale process ACCC required of Saputo.

On 17 August 2018 Bega Cheese Group acquired the dairy manufacturing facility in Koroit from Saputo.

Continuing interest

Whilst Bega Cheese Group will now focus on absorbing these material acquisitions as smoothly and quickly as practical, Bega Cheese Group will continue to position itself to undertake investments in the future where such investments facilitate ongoing development of its strategic plan, provide synergy opportunities and represent a sound commercial return on investment to key stakeholders.

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THE ANNUAL FINANCIAL REPORT OF THE BEGA CHEESE GROUP FOR THE YEAR ENDED 30 JUNE 2018.

From left to right: Richard Cross, Richard Parbery, Peter Margin, Raelene Murphy, Max Roberts, Barry Irvin, Jeff Odgers, Terry O'Brien

BARRY IRVIN AM

Executive Chairman

Director since September 1989.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

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

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Geoffrey Gardiner Dairy Foundation Ltd.

SPECIAL RESPONSIBILITIES

Chair of the Board.

RICHARD CROSS

BAgSci (Hon), GAICD

Director since December 2011.

EXPERIENCE AND EXPERTISE

Richard Cross has represented dairy farmers in many various industry roles, he is currently the Chair of Murray Dairy, Inc., a position he has held for three years. He also owns and actively manages a progressive dairy farm in Northern Victoria.

OTHER CURRENT DIRECTORSHIPS

Director and Chairman of Murray Dairy Inc.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee.

PETER MARGIN

BSc (Hons), MBA

Independent Director since June 2011.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Nufarm Limited, Pact Limited, Costa Group Holdings Limited and Executive Chairman of Asahi Holdings (Australia) Pty Ltd.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

PMP Limited, Huon Aquaculture Limited and Ricegrowers Limited

SPECIAL RESPONSIBILITIES

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

RAELENE MURPHY

BBus, FCA, GAICD

Independent Director since June 2015.

EXPERIENCE AND EXPERTISE

Raelene Murphy has over 35 years' experience in strategic, financial and operational leadership in both industry and professional advisory. In her professional advisory career, she specialised in operational and financial restructuring including merger and acquisition integration. She was formerly a Managing Director at KordaMentha and a Partner in a national accounting firm where she led the corporate turnaround practice. Her industry experience includes as CEO of the Delta Group and senior executive roles in the Mars Group. Raelene is a Fellow of Chartered Accountants Australia and New Zealand.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Integral Diagnostics Limited, Altium Limited, Service Stream Limited, Clean Seas Seafood Limited and Ross House Investments Pty Limited (Stillwell Motor Group).

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

EVZ Limited, Tassal Group Limited, Deputy Chairman of the DOXA Youth Foundation.

SPECIAL RESPONSIBILITIES

Chair of the Audit & Risk Committee.

TERRY O'BRIEN

FCPA, FAICD

Independent Director since September 2017.

EXPERIENCE AND EXPERTISE

Terry has over 40 years' experience in major Australian and international food companies, including Simplot where he was Managing Director for 16 years. Terry has also recently become a member of the East Asia Review Commission (Advisory Board) of Societe d'Oxygene et d'Acetylene d'Extreme-Orient, a member of the Air Liquide Group.

OTHER CURRENT DIRECTORSHIPS

Chairman of A.G Thompson Pty Ltd (t/a Kookaburra Sport); Bundaberg Brewed Drinks Pty Limited; and Clean Seas Seafood Limited. Director of Foodbank Australia.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Food Innovation Australia Limited.

SPECIAL RESPONSIBILITIES

Member of the Audit & Risk Committee.

JEFF ODGERS

BBus (Ag Mgt)

Director since December 2011.

EXPERIENCE AND EXPERTISE

Jeff Odgers owns a 700-cow dairy business on two irrigation properties near Shepparton, Victoria. He has experience in regional and national dairy industry leadership roles. Jeff Odgers is a former Chairman of Murray Dairy Inc.

OTHER CURRENT DIRECTORSHIPS

Chairman of Dairy Australia Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Milk Services Committee.

RICHARD PARBERY

FCPA, MAICD

Director since September 1988.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Audit & Risk Committee.

MAX ROBERTS

MAICD

Director since September 1983.

EXPERIENCE AND EXPERTISE

Following a career in journalism Max Roberts has been involved in all aspects of the Australian Dairy Industry. This has included agri-political representation at the highest level, Board appointments including Chairing Dairy Australia, representing the Australian Dairy industry at a National and international level and at the same time running a successful family dairy farming business.

OTHER CURRENT DIRECTORSHIPS

Chairman of Peanut Company of Australia Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

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

PRINCIPAL ACTIVITIES

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and other food-related products. A number of key events in relation to the activities of the Group during the year ended 30 June 2018 are set out in the Executive Chairman's review, the Chief Executive Officer's review and the review of financial performance and operations which are to be read in conjunction with this Directors' report.

DIVIDENDS

	2018	2017
	$'000	$'000
Interim ordinary dividend for the year ended 30 June 2018 of 5.5 cents	10,178	-
Final ordinary dividend for the year ended 30 June 2017 of 5.0 cents	9,253	-
Interim ordinary dividend for the year ended 30 June 2017 of 5.0 cents	-	7,630
Final ordinary dividend for the year ended 30 June 2016 of 5.0 cents	-	7,630

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $10.2 million (5.5 cents per fully paid share) to be paid on 19 September 2018.

REVIEW OF OPERATIONS

A comprehensive review of operations is set out in the review of financial performance and operations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

INDEMNIFICATION AND INSURANCE PREMIUMS FOR OFFICERS

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

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

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

COMPANY SECRETARIES

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 33 years' experience. He has also been a graduate member of the Australian Institute of Company Directors since 2006. Brett Kelly completed the Certificate in Governance and Risk Management with the Governance Institute of Australia in December 2011.

Colin Griffin CA was appointed to the position of Company Secretary in 1993. Colin Griffin holds a Bachelor of Arts in Accounting and is a Chartered Accountant with 35 years' experience. Colin Griffin's primary responsibility is as Chief Financial Officer (CFO).

MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit & Risk Committee, Nomination, Remuneration and Human Resources Committee and Milk Services Committee meetings held during the year ended 30 June 2018 and the number of meetings attended by each eligible Director and other members:

	Meetings of the Audit & Risk Committee	
	Held and Eligible	Attended
Raelene Murphy	4	4
Peter Margin	4	4
Richard Parbery	4	4

	Meetings of the Nomination, Remuneration and Human Resources Committee	
	Held and Eligible	Attended
Peter Margin	4	4
Richard Cross	4	4
Richard Platts	2	2
Max Roberts	4	4

	Meetings of the Milk Services Committee	
	Held and Eligible	Attended
Jeff Odgers	4	4
Max Roberts	4	4

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	16	16
Richard Cross	16	16
Peter Margin	16	15
Raelene Murphy	16	15
Jeff Odgers	16	16
Richard Parbery	16	15
Richard Platts	3	3
Terry O'Brien	13	13
Max Roberts	16	16

Peter Margin, Raelene Murphy and Richard Parbery gave apologies in advance of the meetings they were unable to attend.

Richard Platts resigned as Director on 4 September 2017.

Terry O'Brien was appointed as Director on 14 September 2017.

ENVIRONMENTAL SUSTAINABILITY

OVERVIEW

As we grow our business we will continue to act responsibly towards the environment, ensuring that our use of natural resources is sustainable, compliant, ethical, and meets community expectations.

The actions we are taking to minimise our impact on the environment occur throughout our value chain from the farm to the factory and through to our consumers and the wider community. During FY2018 this has included an ongoing commitment to our on farm sustainability program, establishing a position on the responsible sourcing of raw ingredients, a relentless focus on resource efficiency within our operations, and efforts to minimise food and packaging waste within our supply chain and post-consumer.

ENVIRONMENTAL REGULATIONS AND MANAGEMENT

LEGISLATIVE FRAMEWORK

The Group is subject to Federal and State Environmental Acts and 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), the *Environmental Protection Act 1994* (Qld) and the *Clean Energy Act 2011* (Cth).

The Group's manufacturing sites are licenced under State Environment Protection Regulations. The licences stipulate performance standards as well as specific monitoring requirements for emissions (noise, air, odour, wastewater, etc.).

During FY2018 the Group complied with all statutory and voluntary reporting requirements and continues to monitor and report energy intensity and carbon footprint.

COMPLIANCE WITH REGULATIONS

During FY2018 the Group was granted an extension to the Pollution Abatement Notice (PAN) requiring the business to comply with noise emissions from the Coburg site. The extension provided the business with additional time to obtain the necessary planning approvals and make significant changes to mitigate the major noise sources, with a final report and full analysis of noise emissions, due by July 2018.

The final report was submitted to the EPA by the due date and indicates that the business has substantially improved noise emissions from the site and now complies with prescribed limits day and night.

On 27 June 2018 the EPA acknowledged that the site complies and revoked the PAN.

MAJOR ENVIRONMENTAL INITIATIVES

The Group conducted a materiality assessment in 2017 to determine key sustainability impacts and inform the priorities of our Sustainability Strategy 2017-2021. 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.

In FY2018, activities to reduce environmental impacts and address material customer, community and sustainability issues included:

- reducing potable water by 12% per tonne of product in NSW
- a major upgrade to the Lagoon Street wood-fired boiler to reduce particulate emissions and improve energy efficiency (this commenced in June 2018 and was completed in July 2018)
- engaging an energy advisor to identify energy saving opportunities at each site and assist the business develop a business wide energy roadmap
- improving recycling rates by 4% in NSW
- recovering steam from the cheese plant at Tatura to save water and energy
- reducing cream losses at Tatura by increasing silo capacity.

SUSTAINABILITY STRATEGY

ENERGY

Energy is a material sustainability issue for the Group requiring a strategic response and in FY2018 the Group with the assistance of an external energy advisor, commenced work on establishing a rolling three-year energy roadmap to improve energy performance within manufacturing operations.

The aim of the energy roadmap is to focus the business on a series of key projects to improve processes that consume energy, provide additional sub-metering and systems to enable better energy management, evaluate new and emerging energy technologies, and reduce exposure to energy price fluctuations.

The uncertainty surrounding energy pricing and supply acted as an important catalyst in developing the roadmap, but Bega also recognises that we can make a positive contribution to the communities in which we operate by taking a strong position in ensuring resources are used as efficiently as possible.

ON FARM DAIRY SUSTAINABILITY

The Bega Better Farms program was launched in April 2018 to further support its dairy farm suppliers. The Better Farms Program follows on from the very successful Sustainability and Growth Program that was finalised in 2017.

Over the next three years the Bega Better Farms program will focus on supporting suppliers to meet regulatory compliance as well as improve the long-term resource sustainability and efficiency of their business.

Dairy suppliers will have access to grant support for:

- advice & service support, up to $1,000 per year
- development and training scholarships with discretionary funding upon application;
- capital works, up to $5,000, with priority focus on regulatory compliance.

To date, capital works grant funding support has been granted for projects including calf rearing facility upgrades, effluent upgrades and chemical storage facilities. Discussion groups and workshops focussing on new technology adoption, calf rearing, farm safety and animal nutrition during dry times have been held predominantly in the Bega region and Northern Victoria throughout 2018.

Our partnership with the NSW South East Local Land Service has continued in FY2018. Since 2005 this successful partnership has resulted in the implementation of environmental on ground works that is resulting in landscape change in the Bega Region.

A cumulative summary of the achievements to FY2018 are as follows:

Number of effluent systems upgraded	53
Number of wetlands protected	73
Fencing installed	261km
Streams protected	405ha
Riparian area revegetated	274ha
Shade and shelterbelts created	120ha

REMUNERATION REPORT (AUDITED)

INTRODUCTION

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) being the key management personnel (KMP) of the Group, the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2018.

KEY MANAGEMENT PERSONNEL (KMP)

Details of Directors are set out in the Directors' Report on pages 16 to 31.

The CEO is appointed by the Board on the recommendation from the Nomination, Remuneration and Human Resources Committee (NRHRC). The executive positions comprising KMP are determined by the NRHRC in consultation with the Executive Chairman and the CEO. The NRHRC reduced the number of KMP to three with effect from the beginning of FY2018. Each KMP other than the CEO is appointed by the CEO in conjunction with the Executive Chairman.

Name	Positions held	Entity
Paul van Heerwaarden	Chief Executive Officer	Group
	Executive Director	Tatura Milk
	Director	Bemore
Colin Griffin	Chief Financial Officer	Group
	Executive Director	Tatura Milk
	Director	Bemore
	Non-executive Director	CCFA

REMUNERATION GOVERNANCE

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

The NRHRC provides guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic human resource planning.

The NRHRC has two key roles:

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

Further details of the role of the NRHRC are provided in the FY2018 Corporate Governance Statement published on the Bega Cheese Limited website.

www.begacheese.com.au/investors/corporate-governance

REMUNERATION GUIDELINES

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

In setting the remuneration of Executive KMP, inclusive of base remuneration, Short-Term Incentive (STI) and the Long-Term Incentive (LTI) at-risk payment for the Executive Chairman, CEO and CFO, the Board takes recommendations from the NRHRC. In formulating its recommendations, the NRHRC takes into account a range of factors including Group financial performance and the remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a material factor in determining the total remuneration for each KMP.

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

In reviewing KMP remuneration in FY2018, the General Manager Human Resources sourced current remuneration market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector. This information was taken into account by the NRHRC to determine base salary adjustments for the Executive Chairman for his executive duties, the CEO and CFO. The approved base salary adjustments were implemented with effect from 1 September 2017.

In April 2018 external KMP information was compiled by Ernst and Young (Ernst and Young KMP Report) and the fee charged was $38,110 plus GST. This fee also included work undertaken on a review of Directors Remuneration. Ernst and Young was provided with a brief from the Chairman of the NRHRC to arrange an independent market review against practices of peer companies. Peer companies were independently selected by Ernst and Young.

The Ernst and Young KMP Report contained remuneration recommendations that no change be made to each of the Executive Chairman's total fixed and incentive remuneration for his executive duties and the CEO's total fixed and incentive remuneration, other than applying incremental year on year increases in line with annual Non-executive Director and management remuneration market increases. The Board confirmed that the remuneration recommendations were made free of undue influence by the KMP to whom the recommendations relate.

DIRECTORS' REMUNERATION

Directors' remuneration is set by the Board within the maximum aggregate amount of $1,200,000 per annum approved by shareholders at the 2017 Annual General Meeting.

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

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles. Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Group. In reviewing the Board fees for FY2018, the General Manager Human Resources sourced current Board fee market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector.

Pursuant to the market analysis the Chairman's allowance and Board fees were increased by 2.5% per annum inclusive of superannuation which took effect from 1 November 2017. There was no change to Board Committee fees.

In April 2018 Ernst and Young provided an independent review of external data relating to Board fees (Ernst and Young Board Report) and the fee charged was included in the review of Executive KMP as previously described. Ernst and Young was provided with a brief from the Chairman of the NRHRC to arrange an independent market review against practices of peer companies. Peer companies were independently selected by Ernst and Young. The Ernst and Young Board Report provided guidance to the NRHRC that Non-Executive Director Board fees were beneath market practice. There was no change recommended to the Chairman's allowance or Board Committee fees. On the basis of the Ernst and Young Board Report guidance, Board fees are to be increased by 2.5% per Director with effect from 1 November 2018.

During the year there was one change to the composition of the Board, with Richard Platts resigning from the Board on 4 September 2017 and Terry O'Brien being appointed to the Board on 14 September 2017. There was no change to the Chairs of the three Board Committees, being the Audit & Risk Committee, the NRHRC and the Milk Services Committee.

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

	Annual amount including super	
	Rate from 1/7/17 to 31/10/17	Rate as from 1/11/2017
Fees and allowances by role	$	$
Chairman of the Board	180,000	184,500
Director fees	85,500	87,640
Chair of Audit & Risk Committee	20,000	20,000
Audit & Risk Committee member allowance	10,000	10,000
Chair of NRHRC	17,500	17,500
NRHRC member allowance	8,750	8,750
Chair of Milk Services Committee	10,000	10,000
Milk Services Committee member allowance	5,000	5,000

REMUNERATION OF THE EXECUTIVE CHAIRMAN

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

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

In FY2018, the Board reviewed the remuneration of the Executive Chairman for his executive duties and this was adjusted from 1 September 2017, in conjunction with a recommendation from the NRHRC. In making its recommendation, the NRHRC took account the benchmarking and related information referred to in the above Remuneration Guidelines.

EXECUTIVE DUTIES

The remuneration of the Executive Chairman for executive duties in FY2018 was set in accordance with the following principles:

- a base salary of $404,875, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period, which was adjusted from 1 September 2017
- the base salary is adjusted down for any fees the Executive Chairman may earn from his role as Director of related organisations
- remuneration earned by the Executive Chairman from 1 July 2017 to 12 October 2017 from his responsibilities whilst serving as a Director of the Geoffrey Gardiner Dairy Foundation Ltd was specifically deducted from his base salary in accordance with the above principle
- a short-term incentive up to $202,437, that was subject to achievement of agreed performance outcomes, as approved by the NRHRC in August 2017
- a long-term incentive plan up to $202,437, that is subject to the achievement of performance hurdles, as determined by the NRHRC in August 2017.

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

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

NON-EXECUTIVE DUTIES

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

REMUNERATION OF THE CEO

The Board, having regard to recommendations received through the NRHRC, determines the remuneration of the CEO.

The remuneration of the CEO was adjusted from 1 September 2017, through the benchmarking and recommendation process referred to in the above Remuneration Guidelines.

The remuneration of the CEO in FY2018 was set in accordance with the following principles:

- an annual base salary of $717,500, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a short-term incentive up to $358,750 subject to the achievement of agreed performance outcomes as approved by the Executive Chairman and the NRHRC in August 2017
- a long-term incentive plan up to $358,750, that is subject to the achievement of performance hurdles, as determined by the NRHRC in August 2017. The CEO has a service agreement the key terms of which were unchanged as follows:

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

REMUNERATION OF THE CFO

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

The base remuneration of the CFO, which is determined as part of the annual remuneration and performance review process, comprises:

- an annual base salary of $444,770, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a short-term incentive up to $177,908 subject to the achievement of agreed performance outcomes
- a long-term incentive plan up to $88,954, that is subject to the achievement of performance hurdles, as determined by the NRHRC in August 2017.

The remuneration of the CFO is set having regard to the total employment cost of the employee to the Group. The base remuneration of the CFO was adjusted from 1 September 2017 through the same benchmarking and recommendation process referred to in the above Remuneration Guidelines. The CFO has a service agreement, the key terms of which were unchanged as follows:

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

INCLUSION OF AT-RISK COMPONENT IN TOTAL REMUNERATION PACKAGE

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

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

For FY2018 each Executive KMP had a documented performance agreement that set individual performance objectives, described success factors for each objective and identified development opportunities that would help them in their current and future roles.

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

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

Executive KMP whose performance is rated as "under achieved" would not receive a base salary review, nor would they be entitled to any outcome under the RAR program. Whilst actual performance of the individual Executive KMP is an important criterion in adjusting their base remuneration, the remuneration recommendations of the NRHRC also take into account the financial performance of the Group, including reference to the attainment of budgeted profit.

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

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

LONG-TERM INCENTIVE PLAN

Following a review by the NRHRC of remuneration structures in FY2017, the Board established a long-term incentive plan as part of the remuneration framework for each of the Executive Chairman and the CEO. A further NRHRC review of remuneration structures in FY2018 recommended that a long-term incentive plan be extended to the Executives reporting to the CEO.

The purpose of the Long-Term Incentive Plans (LTIPs) is to:

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

The Executive Chairman and CEO have identical performance targets for Earnings Per Share (EPS) and Return on Funds employed (ROFE), in the table to the right.

LONG-TERM INCENTIVE PLAN FY2017-FY2019

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

Vesting percentage	ROFE growth targets
Nil vesting	below 11% over the performance period
50% vesting	at 11% over the performance period
Pro-rated vesting between 50% and 100%	between 11% and 13.5% over the performance period
100% vesting	at 13.5% or above over the performance period

LONG-TERM INCENTIVE PLAN FY2018-FY2020

Vesting percentage	EPS growth targets
Nil vesting	below 16% compound annual growth over the performance period
50% vesting	at 16% compound annual growth over the performance period
Pro-rated vesting between 50% and 100%	between 16% and 19% compound annual growth over the performance period
100% vesting	at 19% or above compound annual growth over the performance period

Vesting percentage	ROFE growth targets
Nil vesting	below 13% over the performance period
50% vesting	at 13% over the performance period
Pro-rated vesting between 50% and 100%	between 13% and 16% over the performance period
100% vesting	at 16% or above over the performance period

The Board retains the discretion to adapt the calculation of the Long-Term Incentive Plan measures of the Earnings Per Share and Return on Funds Employed performance hurdles to reflect the impact of significant events, such as capital raising or corporate activity, that may occur during the performance periods.

Provided below are the details of Long-Term Incentive Plans for each of the Executive Chairman and the CEO.

LONG-TERM INCENTIVE PLAN – EXECUTIVE CHAIRMAN

The Executive Chairman participates in two long-term incentive plans, being the 'Executive Chairman's Long-Term Incentive (LTI) Cash Plan (i) FY2017 to FY2019 and (ii) FY2018 to FY2020'.

The Executive Chairman is a substantial shareholder of Bega Cheese and his personal financial interests are already aligned with other shareholders. The opportunity to receive further shares in Bega Cheese under a share-based long-term incentive plan may be seen to provide the Executive Chairman with an opportunity to increase his shareholding in a manner not available to other substantial shareholders.

As such, the Executive Chairman's LTI Cash Plan FY2017 to FY2019 and FY2018 to FY2020 is to be paid in cash, as detailed below.

Executive Chairman's LTI Cash Plan (i) FY2017 - FY2019 and (ii) FY2018 - FY2020

Grant Date:	(i) 1 July 2016; and (ii) 1 July 2017
Vesting Date:	(i) 30 June 2019; and (ii) 30 June 2020
Potential value of Plan:	(i) $197,500; and (ii) $197,500 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below).
Vesting Conditions:	No payment will be made unless the Executive Chairman remains employed with the Group during the entire performance period from (i) 1 July 2016 to 30 June 2019 and (ii) 1 July 2017 to 30 June 2020.
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 50% of the potential value of the Plan granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets. Those EPS growth targets are set out in the table on page 25 and apply over the entire performance period. **Return On Funds Employed (ROFE) Performance Rights** 50% of the potential value of the Plan will be subject to a performance hurdle based on the achievement of certain ROFE targets. Those ROFE targets are set out in the table on page 25 and apply over the entire performance period. ROFE is calculated as the Group's earnings before interest and taxation, adjusted for any non-operating items, divided by shareholder's funds plus net interest-bearing debt.

LONG-TERM INCENTIVE PLAN – CHIEF EXECUTIVE OFFICER

The CEO participates in two long-term incentive plans, being the 'CEO LTI Performance Rights Plan (i) FY2017 to FY2019 and (ii) FY2018 to FY2020'. Given the CEO is not a substantial shareholder in Bega Cheese the Board has agreed that the best way to align the performance of the CEO with the interests of shareholders is for the outcome available under his long-term incentive to be based on performance rights over ordinary shares in the Company.

The number of performance rights for the CEO LTI Performance Rights Plan (i) FY2017 to FY2019 and (ii) FY2018 to FY2020 is calculated using the 'face value' method.

The face value of the performance rights for allocation purposes under the (i) FY2017 to FY2019 plan is $5.27. This was calculated by taking the five-day volume weighted average price of Bega Cheese Limited of $5.62 per share as at 1 July 2016, being the effective date of the CEO's long-term incentive plan agreement, and then deducting the present value of expected dividends forgone over the duration of the Plan (i.e. the dividends not received until the performance rights vest).

The face value of the performance rights for allocation purposes under the (ii) FY2018 to FY2020 plan is $6.13. This was calculated by taking the five-day volume weighted average price of Bega Cheese Limited of $6.39 per share as at 1 July 2017, being the effective date of the CEO's long-term incentive plan agreement, and then deducting the present value of expected dividends forgone over the duration of the Plan (i.e. the dividends not received until the performance rights vest).

CEO LTI Performance Rights Plan (i) FY2017 - FY2019 and (ii) FY2018 - FY2020

Grant Date:	(i) 1 July 2016; and (ii) 1 July 2017
Vesting Date:	(i) 30 June 2019; and (ii) 30 June 2020
Number of Performance Rights offered:	(i) 66,370; and (ii) 57,951 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right is converted into one fully paid ordinary share in the Group.
Exercise Price:	There is no exercise price payable in relation to the exercise of the performance rights.
Vesting Conditions:	No performance right granted will vest and be automatically exercised unless the CEO remains employed with the Group during the entire performance period from (i) 1 July 2016 to 30 June 2019 and from (ii) 1 July 2017 to 30 June 2020.
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 50% of the potential value of the Plan granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets. Those EPS growth targets are set out in the table on page 25 and apply over the entire performance period. **Return on Funds Employed (ROFE) Performance Rights** 50% of the potential value of the Plan granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets. Those EPS growth targets are set out in the table on page 25 and apply over the entire performance period.

Additional Rules applicable to the CEO LTI Performance Rights Plan (i) FY2017 to FY2019 and (ii) FY2018 to FY2020

Dividends and voting rights: There are no voting or dividend rights until the performance rights vest and are automatically exercised and then ordinary shares are held in the Group.

Dividend reinvestment: Additional performance rights are not granted as a result of holding performance rights when dividends are declared by the Group.

Restrictions on Performance Rights: The CEO may not transfer or encumber the performance rights with a security interest without the consent of the Board.

Lapse of Performance Rights: Performance rights that have not vested as at the relevant performance measurement date will automatically lapse, unless otherwise determined by the Board.

All performance rights will also lapse in other circumstances, including, but not limited to, where the CEO has acted fraudulently or dishonestly in the opinion of the Board.

KMP REMUNERATION AT-RISK (RAR) OUTCOME

RAR Gateways

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

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

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

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

Executive Chairman

At the commencement of FY2018 the Board determined the RAR key performance indicators (KPIs) for the Executive Chairman with 40% of these KPIs relating to the financial performance of the Group and 60% directly aligned with the executive duties attached to the role of Executive Chairman in executing the Group's strategic plan, in particular strategic business development and Board succession planning.

The Executive Chairman achieved 50% of personal KPIs which comprised 60% of the RAR Plan and 40% of Group financial performance KPIs. As a result, the Executive Chairman is entitled to 90% of the payment under the approved 2018 RAR Plan.

Chief Executive Officer and Chief Financial Officer

The RAR component for the CEO and the CFO for FY2018 was determined in accordance with the 2018 RAR Plan approved by the Board.

If Group and individual gateways were both met, the CEO and the CFO could achieve a RAR payment based on the achievement of the normalised Group EBITDA budget and stretch targets (50%), safety (10%), cash flow (10%) and strategic personal objective targets (30%).

The maximum RAR for the CEO Paul van Heerwaarden totalled 50% of his total fixed remuneration. The maximum RAR for the CFO Colin Griffin totalled 40% of his total fixed remuneration.

The following outcomes were achieved with RAR Group and individual gateways opening:

CEO	Group gateways	Individual gateways	EBITDA 50%	OH&S criteria 10%	Free cash flow budget 10%	Personal objectives 30%	Total achieved %	Total forfeited %	Total fixed rem'n 2018 $	Outcome $
Paul van Heerwaarden	√	√	43%	10%	5%	25%	83%	17%	717,500	296,686
KMP										
Colin Griffin	√	√	43%	10%	5%	25%	83%	17%	444,770	147,130

RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

Bega Cheese became a disclosing entity in FY2011 and as a result, the relationship between remuneration policy and Group performance has been assessed with effect from that year.

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

Key performance indicator		FY2018 Actual	FY2018 Normalised	FY2017 Actual	FY2017 Normalised	FY2016 Actual	FY2016 Normalised	FY2015 Actual	FY2015 Normalised	FY2014 Actual	FY2014 Normalised	FY2018 vs FY2017 Amount	%
Enterprise value	$m	1,617	1,617	882	1,334	914	914	719	719	755	755	282	21
Profit before tax	$'000	50,884	69,036	198,038	43,155	39,900	40,504	16,434	30,161	93,580	42,124	25,881	60
Profit after tax	$'000	28,768	44,003	138,748	30,331	28,779	29,202	12,408	22,017	66,055	29,764	13,672	45
Dividends per share	Cents	11.00	11.00	10.00	10.00	9.50	9.50	8.50	8.50	8.50	8.50	1.00	10
Earnings per share	Cents	15.6	23.9	90.9	19.9	18.9	19.1	8.1	14.4	43.4	19.6	4.0	20
Total shareholder return	%	15.51	15.51	16.70	16.70	32.91	32.91	(9.34)	(9.34)	92.05	92.05	(1.19)	(7)
KMP total remuneration	$'000	3,658	3,658	5,415	5,415	4,962	4,962	3,623	3,623	4,879	4,879	(1,757)	(32)

The outcomes above resulted in the RAR gateways opening and achievement of Group and individual RAR outcomes as outlined in the previous tables being up on the prior year.

Bega Cheese Enterprise Value is calculated as at 30 June each year as market capitalisation plus debt less cash, with the FY2017 normalised amount excluding the impact of a one-off large cash balance pending the settlement of the Mondelēz Grocery Business acquisition that followed on 4 July 2017.

DETAILS OF REMUNERATION

		Short-term benefits		Post-employment benefits	Long-term benefits		Share-based payment	Total
	Year	Cash salary and fees $	Short-term incentive $	Superannuation $	Leave (1) $	Long-term incentive (2) $	Equity settled performance rights (3) $	All amounts $
Executive Chairman								
Barry Irvin (4)	2018	561,290	182,194	25,000	64,139	131,666	-	964,289
	2017	537,288	197,500	35,425	38,427	65,833	-	874,473
Executive KMP								
Paul van Heerwaarden	2018	695,168	296,686	25,000	71,923	-	235,450	1,324,227
	2017	541,219	225,404	30,000	121,535	-	117,039	1,035,197
Aidan Coleman	2018	-	-	-	-	-	-	-
	2017	771,566	345,858	23,333	-	-	-	1,140,757
Garth Buttimore (7)	2018	-	-	-	-	-	-	-
	2017	350,731	104,521	32,625	41,149	-	-	529,026
Colin Griffin	2018	417,962	147,130	25,000	53,337	-	29,280	672,709
	2017	396,557	140,027	35,000	55,123	-	-	626,707
David McKinnon (7)	2018	-	-	-	-	-	-	-
	2017	347,267	105,692	32,990	40,813	-	-	526,762
Remuneration	2018	1,674,420	626,010	75,000	189,399	131,666	264,730	2,961,225
Total Executive	2017	2,944,628	1,119,002	189,373	297,047	65,833	117,039	4,732,922
Non-executive Directors								
Richard Cross	2018	87,256	-	8,289	-	-	-	95,545
	2017	84,395	-	8,017	-	-	-	92,412
Peter Margin	2018	114,303	-	-	-	-	-	114,303
	2017	109,500	-	-	-	-	-	109,500
Raelene Murphy	2018	97,650	-	9,277	-	-	-	106,927
	2017	94,064	-	8,936	-	-	-	103,000
Jeff Odgers	2018	88,517	-	8,409	-	-	-	96,926
	2017	85,540	-	8,126	-	-	-	93,666
Richard Parbery	2018	88,517	-	8,409	-	-	-	96,926
	2017	85,692	-	8,141	-	-	-	93,833
Richard Platts (5)	2018	15,008	-	1,426	-	-	-	16,434
	2017	84,395	-	8,017	-	-	-	92,412
Max Roberts	2018	91,822	-	8,723	-	-	-	100,545
	2017	88,504	-	8,408	-	-	-	96,912
Terry O'Brien (6)	2018	69,114	-	-	-	-	-	69,114
	2017	-	-	-	-	-	-	-
Total Non-Executive	2018	652,187	-	44,533	-	-	-	696,720
	2017	632,090	-	49,645	-	-	-	681,735
	2018	2,326,607	626,010	119,533	189,399	131,666	264,730	3,657,945
	2017	3,576,718	1,119,002	239,018	297,047	65,833	117,039	5,414,657

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

(2) Long-term incentive based on the achievement of specified milestones of the Executive Chairman's LTI Plan. The amount reflects the expense for the FY2017 and FY2018 year proportion of the cash incentive due to vest in FY2019. Further details of the Executive Chairman's LTI Plan are set out above.

(3) Amounts under share-based payments represent the accounting outcome for LTI Plans calculated in accordance with accounting standards. The amount of $264,730 in FY2018 reflects the expense for the FY2018 proportion of the valuation of share rights to vest in FY2019 ($117,361) and in FT2020 ($147,369). Further details of the CEO's and CFO's LTI Plan are set out above.

(4) Includes remuneration for Non-executive Chairman responsibilities. Gardiner Foundation Board duties ceased in October 2017.

(5) Board Director Richard Platts retired from the Board on 4 September 2017.

(6) Terry O'Brien commenced as a Board Director on 14 September 2017.

(7) David McKinnon and Garth Buttimore ceased as KMP effective from 1 July 2017.

OTHER MATTERS

RELATED PARTY TRANSACTIONS

Shareholdings

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

2018 - Numbers of ordinary shares	Balance at 1 July 2017	Other changes during the year	Balance at 30 June 2018
Executive Chairman			
Barry Irvin	2,704,984	2,857	2,707,841
Executive KMP			
Colin Griffin	145,000	-	145,000
Paul van Heerwaarden	45,000	-	45,000
Non-executive Directors			
Richard Cross	273,154	(33,096)	240,058
Peter Margin	6,500	2,857	9,357
Raelene Murphy	1,637	4,327	5,964
Jeff Odgers	163,174	(43,143)	120,031
Richard Parbery	2,664,012	2,857	2,666,869
Richard Platts	3,280,014	(3,280,014)	-
Terry O'Brien	-	7,857	7,857
Max Roberts	1,455,000	2,857	1,457,857

Richard Platts ceased to be a Director on 4 September 2017. He still holds shares in the Company but these are no longer disclosed under related party transactions.

TRANSACTIONS RELATING TO MILK

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

	CONSOLIDATED	
	2018 $	2017 $
Milk payments made by the Bega Cheese Group	7,060,605	8,378,898
Amounts outstanding at year end	499,694	542,927

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ROUNDING OF AMOUNTS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 17 August 2018, Bega Cheese Group entered into a revised Group syndicated debt facility structure funded by Coöperatieve Rabobank U.A. (Australia Branch) and Westpac Banking Corporation (Revised Syndicated Facility).

On 17 August 2018, Bega Cheese Group acquired the dairy manufacturing facility in Koroit from Saputo.

On 29 August 2018, the Directors declared a final fully franked dividend of 5.5 cents per share, which represents a distribution of $10.2 million. No other matters or circumstances occurring subsequent to the end of the financial year have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future years.

AUDITOR

Details of the amounts paid or payable to PricewaterhouseCoopers (PwC) Australia for audit and non-audit services provided during the financial year are set out in note 31.

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

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

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

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

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

29 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

P.J. Carney

Paddy Carney
Partner

PricewaterhouseCoopers

Sydney
29 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

CORPORATE GOVERNANCE STATEMENT

THE BEGA CHEESE GROUP IS COMMITTED TO ACHIEVING AND MAINTAINING THE HIGHEST STANDARDS OF ACCOUNTABILITY AND TRANSPARENCY IN THE MANAGEMENT AND CONDUCT OF ITS BUSINESS.

The Board has adopted corporate governance policies and practices that it believes are consistent with the continued growth and success of the Group and the ongoing enhancement of value for the Bega Cheese Group shareholders.

The Corporate Governance Statement outlines the key aspects of the Group's corporate governance framework and is available on the Group's website at **www.begacheese.com.au/investors/corporate-governance/corporate-governance-statement.**

The Board considers that the Group's corporate governance framework and practices have complied with the ASX Recommendations for the financial year, except otherwise detailed in the Corporate Governance Statement.


PNR Nuts
Peter

INDEX TO THE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		CONSOLIDATED	
	Notes	2018 $'000	2017 $'000
Revenue	5	1,438,281	1,226,663
Cost of sales		(1,166,329)	(1,072,436)
Gross profit		**271,952**	**154,227**
Other revenue	5	7,203	6,490
Other income	5	3,054	1,027
Gain on sale of infant nutritional assets		-	177,833
Distribution expense		(73,490)	(53,979)
Marketing expense		(39,123)	(13,002)
Occupancy expense		(5,630)	(3,091)
Administration expense		(87,694)	(54,231)
Transaction costs and fair value adjustments relating to Bega Foods acquisition		(16,602)	(11,518)
Transaction costs relating to PCA acquisition		(3,142)	-
Impairment of assets	6	-	(3,347)
Finance costs	6	(10,676)	(3,226)
Share of net profit of joint venture	24	606	855
Gain on bargain purchase	26	4,426	-
Profit before income tax		**50,884**	**198,038**
Income tax expense	7a	(22,116)	(59,290)
Profit for the year attributable to owners of Bega Cheese Limited		**28,768**	**138,748**
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss			
Cash flow hedges		(574)	376
Change in the fair value of other financial assets		87	105
Total other comprehensive (expense)/income		**(487)**	**481**
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		**28,281**	**139,229**

		2018 Cents	2017 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share	3	15.6	90.9
Diluted earnings per share	3	15.6	90.8

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

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	21,669	475,533
Trade and other receivables	8	200,561	168,536
Derivative financial instruments	9	707	1,546
Inventories	10	232,080	167,898
Current tax assets		14,014	4,959
Total current assets		**469,031**	**818,472**
Non-current assets			
Other financial assets	9	635	879
Property, plant and equipment	11	323,585	196,799
Deferred tax assets	7e	3,589	16,172
Other receivables	8	6,120	-
Intangible assets	12	411,463	22,650
Investments accounted for using the equity method	24	1,393	1,288
Total non-current assets		**746,785**	**237,788**
Total assets		**1,215,816**	**1,056,260**
LIABILITIES			
Current liabilities			
Trade and other payables	13	225,910	169,324
Derivative financial instruments	15	2,018	408
Borrowings	14	121	64
Current tax liabilities		6,737	63,911
Provisions	16	43,405	32,877
Total current liabilities		**278,191**	**266,584**
Non-current liabilities			
Borrowings	14	266,982	215,280
Provisions	16	1,784	1,722
Deferred tax liabilities	7e	36,868	-
Total non-current liabilities		**305,634**	**217,002**
Total liabilities		**583,825**	**483,586**
Net assets		**631,991**	**572,674**
EQUITY			
Share capital	17a	274,862	224,692
Reserves	18a	21,466	21,656
Retained earnings		335,663	326,326
Capital and reserves attributable to owners of Bega Cheese Limited		**631,991**	**572,674**
Total equity		**631,991**	**572,674**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Share capital $'000	Share-based payment reserve $'000	Capital profits reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Transactions with non-controlling interests $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2016	103,942	94	33,959	(244)	(184)	(12,567)	202,838	327,838
Profit for the year	-	-	-	-	-	-	138,748	138,748
Other comprehensive income for the year	-	-	-	376	105	-	-	481
Transactions with owners in their capacity as owners:								
- Issue of shares, net of transaction costs and tax (note 17)	120,750	-	-	-	-	-	-	120,750
- Share-based payments relating to incentives (note 32)	-	117	-	-	-	-	-	117
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(15,260)	(15,260)
Balance as at 30 June 2017	**224,692**	**211**	**33,959**	**132**	**(79)**	**(12,567)**	**326,326**	**572,674**
Balance as at 1 July 2017	224,692	211	33,959	132	(79)	(12,567)	326,326	572,674
Profit for the year	-	-	-	-	-	-	28,768	28,768
Other comprehensive (expense)/ income for the year	-	-	-	(574)	87	-	-	(487)
Transactions with owners in their capacity as owners:								
- Issue of shares, net of transaction costs and tax (note 17)	50,170	-	-	-	-	-	-	50,170
- Share-based payments relating to incentives (note 32)	-	391	-	-	-	-	-	391
- Other share scheme movement (note 32)	-	(94)	-	-	-	-	-	(94)
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(19,431)	(19,431)
Balance as at 30 June 2018	**274,862**	**508**	**33,959**	**(442)**	**8**	**(12,567)**	**335,663**	**631,991**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,499,943	1,274,872
Payments to suppliers and employees inclusive of goods and services tax		(1,404,944)	(1,190,698)
Interest and other costs of financing paid		(10,676)	(3,226)
Income taxes paid	7f	(25,759)	(10,727)
Net cash inflow from operating activities	19	**58,564**	**70,221**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares in listed companies		2,700	-
Payments for shares in listed companies		(623)	-
Interest received		854	437
Dividend received		25	15
Payments for property, plant and equipment	11	(26,998)	(26,568)
Net proceeds from sale of property, plant and equipment		10,014	188,921
Tax paid on sale of infant nutritional assets		(53,438)	-
Payments for intangible assets	12	(19,570)	(12,611)
Payments for acquisition of Bega Foods	26	(452,726)	-
Payments for acquisition of PCA, net of cash acquired	26	(11,658)	-
Payments related to corporate activity		(13,916)	(13,147)
Joint venture distributions received	24	500	1,063
Net cash (outflow)/inflow from investing activities		**(564,836)**	**138,110**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		69,693	198,280
Repayment of borrowings		(45,944)	(45,671)
Payment of finance lease liabilities		(1,881)	-
Net proceeds from issue of shares		49,971	120,195
Dividends paid to members		(19,431)	(15,260)
Net cash inflow from financing activities		**52,408**	**257,544**
Net (decrease)/increase in cash and cash equivalents		**(453,864)**	**465,875**
Cash and cash equivalents at the beginning of the year		475,533	9,658
Cash and cash equivalents at the end of the year	19	**21,669**	**475,533**

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

NOTES TO THE FINANCIAL STATEMENTS

HOW NUMBERS ARE CALCULATED

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

A. BEGA FOODS ACQUISITION

On 4 July 2017 Bega Cheese announced that it had completed the acquisition of most of Mondelēz International's Australia and New Zealand grocery and cheese business (Mondelēz Grocery Business) which included the iconic Vegemite brand. The Mondelēz Grocery Business, now called Bega Foods, operates within the Bega Cheese Limited entity.

The acquisition was financed initially by proceeds on sale of various nutritional assets under the MJN Alliance and bank debt, part of which was paid down soon after completion as a result of:

- raising capital via an Institutional Placement which raised $122.5 million on 29 June 2017
- raising capital via a Share Purchase Plan which closed on 31 July 2017, raising $50.2 million.

B. SHARE PURCHASE PLAN

A Share Purchase Plan Offer (SPP Offer) was opened on 3 July 2017 and closed on 31 July 2017. Under the SPP, each eligible Bega Cheese shareholder was able to subscribe for up to $15,000 of new Bega Cheese shares, without incurring brokerage or transaction costs. The SPP Offer raised $50.2 million and resulted in an additional 9,561,404 ordinary fully paid shares being issued.

C. PEANUT COMPANY OF AUSTRALIA (PCA) ACQUISITION

On 11 November 2017, Bega Cheese Limited (Bega Cheese) announced an unconditional takeover offer for all the shares in Peanut Company of Australia Limited (PCA) and the signing of a placement agreement and bid implementation agreement with PCA. Under the placement agreement, Bega Cheese subscribed for 19.99% of the issued shares of PCA for $1.9 million. Under the bid implementation agreement, the remaining shares were acquired for $10.0 million.

On 25 January 2018 Bega Cheese completed the compulsory acquisition of the remaining shares in PCA in accordance with section 661A of the *Corporations Act 2001.*

In early February 2018 Bega Cheese paid out PCA's existing bank debt and other related financing liabilities totalling of $30.4 million and incorporated the debt financing requirements for PCA under Bega Cheese Group Syndicated Facility, utilising part of the undrawn balance of this facility at that time.

PCA is located in Kingaroy, Queensland and has been one of Australia's leading suppliers of locally grown peanuts to domestic and export customers for over 90 years. PCA is also highly regarded for its peanut research and development program. The acquisition of PCA will help increase the supply of Australian grown peanuts for the manufacture of peanut butter at Bega Cheese's Port Melbourne facility and to continue to service other PCA customers.

D. MURRAY GOULBURN

During FY2018 Bega Cheese actively engaged in a detailed review of the Murray Goulburn Cooperative Co Limited (Murray Goulburn) business as an acquisition opportunity. Bega Cheese's proposal to acquire Murray Goulburn was ultimately not accepted and on 27 October 2017 Murray Goulburn announced that it had entered into a binding agreement to sell their business to Saputo Dairy Australia Pty Ltd (Saputo).

Bega Cheese incurred a number of one-off advisory, legal and due diligence costs in undertaking its review of Murray Goulburn in FY2018.

E. KRAFT LEGAL ACTION

In July 2017 Bega Cheese completed its acquisition of the Mondelēz Grocery Business in Australia and New Zealand. This included Vegemite and peanut butter products, the associated intellectual rights and the manufacturing facility at Port Melbourne at which products have been made for many years.

The Kraft Foods Group Brands LLC (Kraft Heinz) has instigated arbitration in the United States and proceedings in the Federal Court of Australia, challenging Bega Cheese's use of and promotion of the trade dress (yellow lid, clear jar, yellow label with red or blue peanut device) of the Bega peanut butter products. Bega Cheese is strongly defending its right to use the trade dress and opposing the use of similar trade dress in Australia by Kraft Heinz.

In May 2018, the Federal Court of Australia handed down a decision that means that Kraft Heinz cannot proceed with any aspect of the United States arbitration until the Australian Federal Court proceedings regarding the use of the trade dress have been heard by the Court and the Court has handed down its findings. This decision was requested by Bega Cheese.

The hearing of the Australian Federal Court proceedings commenced on 6 August 2018 and was ongoing at 29 August 2018.

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD (CONT.)

F. FONTERRA LEGAL ACTION

In 2001 Bega Cheese granted Fonterra Brands (Australia) Pty Ltd (Fonterra) an exclusive licence to use the Bega trade marks in Australia on natural cheddar cheese, processed cheddar cheese, string cheese and butter (Licensed Products). Fonterra has commenced legal proceedings in the Supreme Court of Victoria seeking orders including declarations that Bega Cheese cannot use the Bega trade marks in Australia on products outside of the Licensed Products without Fonterra's consent as well as damages. Bega Cheese as owner of the trademarks will vigorously oppose Fonterra's position and defend its rights to use its trade marks in Australia.

Bega Cheese has received detailed legal advice. Bega Cheese does not expect that the two matters referred to in E. and F. above, which are both before the courts, will have a material impact on the financial performance or position of the Group.

G. EFFECTIVE TAX RATE

The effective tax rate for the period is 43.5%, which is abnormally high as a result of a significant amount of non-deductible expenses in the period. These expenses are primarily stamp duty, landholder duty and legal costs relating to the acquisitions of Bega Foods and PCA, which are one-off in nature, and prior period adjustments.

H. EXTRAORDINARY GENERAL MEETING

On 5 January 2018 Bega Cheese held an Extraordinary General Meeting (EGM) to consider the issue of shares under the June 2017 Institutional Placement. At the EGM shareholders approved the previous issue in June 2017 of 22,890,441 ordinary shares in the Company at $5.35 per share under the Institutional Placement including for the purposes of ASX Listing Rule 7.4.

2. SEGMENT INFORMATION

A. DESCRIPTION OF SEGMENTS

The Group determines the reporting segments based on financial and other management reports reviewed by the Board of Directors, in its capacity as the Chief Operating Decision Maker. The Group has two reporting segments:

i. Bega Cheese – manufactures packages and sells natural cheese, processed cheese, powders, butter and branded food products.

ii. Tatura Milk – manufactures, packages and sells cream cheese, commodity powders, butter and nutritional powders.

As a result of the recent acquisitions, the Directors are currently reviewing the overall structure of the business activities of the extended Group which may result in changes to how activities are reported to the Chief Operating Decision Maker in the future. Any changes made may have a corresponding impact on segment results reported in the financial statements.

2. SEGMENT INFORMATION (CONT.)

B. SEGMENT INFORMATION PROVIDED TO THE BOARD OF DIRECTORS

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2018 is as follows:

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2018				
Revenue	1,007,043	488,237	(56,999)	1,438,281
EBITDA	27,476	64,657	(110)	92,023
Depreciation, amortisation and impairment	(22,981)	(8,336)	-	(31,317)
EBIT	4,495	56,321	(110)	60,706
Interest revenue	260	2,788	(2,194)	854
Interest expense	(12,798)	(72)	2,194	(10,676)
Profit before income tax	**(8,043)**	**59,037**	**(110)**	**50,884**
Income tax expense	(4,411)	(17,738)	33	(22,116)
Profit for the year	**(12,454)**	**41,299**	**(77)**	**28,768**
Total segment assets	1,113,089	442,544	(339,817)	1,215,816
Total segment liabilities	750,444	96,115	(262,734)	583,825
Purchases of property, plant and equipment	18,719	9,747	-	28,466
Purchases of intangibles	17,926	-	-	17,926
Impact of current year events on profit before tax				
Transaction costs and fair value adjustments relating to Bega Foods acquisition	(16,602)	-	-	(16,602)
Transaction costs relating to PCA acquisition	(3,142)	-	-	(3,142)
PCA bargain purchase	4,426	-	-	4,426
Transaction costs relating to Koroit acquisition	(800)	-	-	(800)
Other costs	(2,034)	-	-	(2,034)

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2017				
Revenue	808,507	467,377	(49,221)	1,226,663
EBITDA	10,830	218,020	-	228,850
Depreciation, amortisation and impairment	(17,793)	(10,230)	-	(28,023)
EBIT	(6,963)	207,790	-	200,827
Interest revenue	89	727	(379)	437
Interest expense	(2,965)	(640)	379	(3,226)
Profit before income tax	**(9,839)**	**207,877**	**-**	**198,038**
Income tax expense	4,663	(63,953)	-	(59,290)
Profit for the year	**(5,176)**	**143,924**	**-**	**138,748**
Total segment assets	930,083	434,844	(308,667)	1,056,260
Total segment liabilities	586,781	128,533	(231,728)	483,586
Purchases of property, plant and equipment	13,843	11,426	-	25,269
Purchases of intangibles	15,579	-	-	15,579
Impact of current year events on profit before tax				
Gain on sale of assets to Mead Johnson	-	177,833	-	177,833
Bega Foods transaction acquisition costs	(11,518)	-	-	(11,518)
Impairment of assets	(3,347)	-	-	(3,347)
Inventory losses	-	(8,085)	-	(8,085)

2. SEGMENT INFORMATION (CONT.)

C. OTHER SEGMENT INFORMATION

i. Segment revenue

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Sales to external customers in Australia		
Bega Cheese	819,090	665,035
Tatura Milk	194,317	232,806
Total sales to external customers in Australia	1,013,407	897,841
Sales to external customers in other countries		
Bega Cheese	173,280	133,815
Tatura Milk	251,594	195,007
Total sales to external customers in other countries	424,874	328,822
Total sales to external customers	**1,438,281**	**1,226,663**

Revenues of approximately $475,609,000 (2017: $483,512,000) are concentrated in a small number of external customers.

Segment sales by category are as follows:

	Bega Cheese $'000	**Tatura Milk** $'000	**Group Eliminations** $'000	**Group Total** $'000
Year ending 30 June 2018				
Dairy and other ingredients	109,806	354,834	(56,999)	407,641
Consumer packaged goods	897,237	-	-	897,237
Nutritionals	-	133,403	-	133,403
Sales by product	**1,007,043**	**488,237**	**(56,999)**	**1,438,281**
Year ending 30 June 2017				
Dairy and other ingredients	65,043	282,294	(49,221)	298,116
Consumer packaged goods	743,464	-	-	743,464
Nutritionals	-	185,083	-	185,083
Sales by product	**808,507**	**467,377**	**(49,221)**	**1,226,663**

ii. EBITDA

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

iii. Segment assets and liabilities

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

3. EARNINGS PER SHARE

	CONSOLIDATED	
	2018 Cents	**2017** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	15.6	90.9
Diluted earnings per share	15.6	90.8

	2018 Number	**2017** Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	184,059,356	152,665,659
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	200,670	66,370
Shares used as the denominator in calculating diluted earnings per share	184,260,026	152,732,029

	2018 $'000	**2017** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	28,768	138,748

4. DIVIDENDS TO SHAREHOLDERS

	COMPANY	
	Full year 2018 $'000	**Full year 2017** $'000
Recognised amounts:		
2018 Interim dividend of 5.50 cents	10,178	-
2017 Final dividend of 5.00 cents	9,253	-
2017 Interim dividend of 5.00 cents	-	7,630
2016 Final dividend of 5.00 cents	-	7,630
Total dividend	**19,431**	**15,260**
Unrecognised amounts:		
2018 Final dividend of 5.50 cents	10,178	-
2017 Final dividend of 5.00 cents	-	9,253

The dividends paid in 2018 and 2017 were fully franked. The 2018 final dividend will be fully franked.

	CONSOLIDATED		COMPANY	
	2018 $'000	**2017** $'000	**2018** $'000	**2017** $'000
Value of the dividend franking account	90,623	91,317	3,728	14,882

The value of the dividend franking account represents the balance of the franking account as at the end of the year, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of the subsidiaries were paid as dividends.

5. REVENUE AND OTHER INCOME

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Sales of goods	1,420,810	1,211,894
Services	17,471	14,769
Total revenue	**1,438,281**	**1,226,663**
Other revenue		
Royalties	6,737	5,120
Sundry contract income	-	672
Dividends	25	15
Rental revenue	441	683
Total other revenue	**7,203**	**6,490**
Other income		
Profit on sale of investment	1,708	-
Interest income	854	437
Other	492	590
Total other income	**3,054**	**1,027**

6. EXPENSES

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Loss on disposal of property, plant and equipment	8	126
Operating lease minimum lease payments	3,390	2,862
Increase in inventory provisions	4,621	4,981
(Decrease)/increase of bad and doubtful debts	(146)	256
Depreciation of non-current assets	28,658	24,676
Impairment of tangible assets	-	2,515
Impairment of intangible assets	528	832
Amortisation of intangible assets	2,131	-
Employee benefit expense:		
- Defined contribution superannuation expense	15,659	13,480
- Other employee benefits expense	190,709	160,231
Total employee benefit expense	**206,368**	**173,711**
Finance costs:		
- Interest on bank loans	9,795	2,542
- Other finance costs	881	684
Total finance costs	**10,676**	**3,226**

7. INCOME TAX

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
A. INCOME TAX EXPENSE		
Current tax (expense)	(8,858)	(65,152)
Deferred tax benefit/(expense) from the origination and reversal of temporary differences	(9,635)	5,496
Adjustments recognised in the current year in relation to tax of prior years	(3,623)	366
Total income tax expense	**(22,116)**	**(59,290)**

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

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	50,884	198,038
Tax (expense) at the Australian tax rate of 30% (2017 - 30%)	(15,265)	(59,411)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	1,328	-
Non-deductible expenses	(4,478)	(422)
Other assessable income	-	-
Other deductible expenses	6	4
	(3,144)	(418)
Tax incentives	406	703
Adjustments in respect of prior year	(3,623)	366
Adjustment to provision for deferred income tax	172	-
De-recognition of previously recognised capital losses	(1,738)	-
Previously unrecognised tax losses used to reduce deferred tax expense	1,076	-
Impact of change in accounting policy (note 33g)	-	(530)
Total income tax expense	**(22,116)**	**(59,290)**

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
C. AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but through other comprehensive income in respect of:		
Fair value movement in investments	(37)	(45)
Movement in hedging reserve	473	(161)
Total amount recognised through other comprehensive income	**436**	**(206)**

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
D. AMOUNTS RECOGNISED THROUGH EQUITY		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but through equity in respect of:		
Share issue costs	211	553
Total amount recognised through equity	**211**	**553**

7. INCOME TAX (CONT.)

E. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $'000	Acquisition $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Year ending 30 June 2018					
Deferred tax assets					
Doubtful debts	78	-	(41)	-	37
Inventories	5,202	(1,120)	(1,780)	-	2,302
Sundry accrued expenses	1,019	767	(1,786)	-	-
Black hole expenditure	1,984	-	(275)	-	1,709
Employee provisions	10,381	1,890	736	-	13,007
Share issue costs	442	-	(145)	211	508
Fair value of derivatives	-	-	-	319	319
Available for sale financial assets	34	-	-	(34)	-
Total deferred tax assets	19,140	1,537	(3,291)	496	17,882
Deferred tax (liabilities)					
Property, plant and equipment	(1,659)	-	(976)	-	(2,635)
Intangible assets	(530)	(42,000)	-	-	(42,530)
Sundry accrued expenses	-	-	(1,335)	-	(1,335)
Prepayments	-	-	(1,358)	-	(1,358)
Fair value of derivatives	(149)	-	(5)	154	-
Available for sale financial assets	-	-	-	(3)	(3)
Other	(630)	-	(2,670)	-	(3,300)
Total deferred tax (liabilities)	(2,968)	(42,000)	(6,344)	151	(51,161)
Total deferred tax	**16,172**	**(40,463)**	**(9,635)**	**647**	**(33,279)**

Consolidated	Opening balance $'000	Acquisition $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Period ending 30 June 2017					
Deferred tax assets					
Borrowing costs	4	-	(4)	-	-
Doubtful debts	-	-	78	-	78
Inventories	1,719	-	3,483	-	5,202
Sundry accrued expenses	316	-	703	-	1,019
Black hole expenditure	-	-	1,984	-	1,984
Employee provisions	10,027	-	354	-	10,381
Share issue costs	-	-	(111)	553	442
Available for sale financial assets	79	-	-	(45)	34
Total deferred tax assets	12,145	-	6,487	508	19,140
Deferred tax (liabilities)					
Property, plant and equipment	(1,383)	-	(276)	-	(1,659)
Intangible assets	-	-	(530)	-	(530)
Fair value of derivatives	(110)	-	122	(161)	(149)
Other	(323)	-	(307)	-	(630)
Total deferred tax (liabilities)	(1,816)	-	(991)	(161)	(2,968)
Total deferred tax	**10,329**	**-**	**5,496**	**347**	**16,172**

Unused tax losses for which no deferred tax asset has been recognised as at 30 June 2018 are $17,456,000, the potential tax benefit of this at 30% is $5,237,000.

Deferred tax assets and liabilities in the Consolidated Balance Sheet have been disclosed based whether the taxable entity they relate to has a legally enforceable right to set off the recognised amounts.

7. INCOME TAX (CONT.)

	CONSOLIDATED	
	2018 $'000	**2017** $'000
F. INCOME TAXES PAID		
Income taxes paid are included in the Consolidated Statement of Cash Flows as follows:		
Income taxes (paid) included in operating activities	(25,759)	(10,727)
Income taxes (paid) included in investing activities	(53,438)	-
Total income taxes (paid)	**(79,197)**	**(10,727)**

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Current assets		
Trade receivables	177,561	141,796
Allowance for impairment of receivables	(110)	(256)
	177,451	141,540
Goods and services tax (GST) receivable	10,201	7,929
Prepayments	5,346	5,389
Accrued revenue	4,889	748
Other receivables	356	10,127
Advances for vat loans	7	57
Advances to suppliers	2,311	2,746
Total current trade and other receivables	200,561	168,536
Non-current assets		
Prepayments and other receivables	6,120	-
Total non-current trade and other receivables	6,120	-
Total trade and other receivables	**206,681**	**168,536**

The average credit period for trade receivables is 30 days. Judgement is used in assessing trade receivables due from customers under product supply contracts that require a periodic reconciliation to specific terms of those contracts. From time to time there may be differences of opinion between the Bega Cheese Group and the customer as to the amount receivable under the contracts. Such differences are usually resolved amicably between the parties having regard to the relevant contract. Where such differences are unresolved at reporting dates the Bega Cheese Group seeks additional information and professional advice in the context of the relevant contract in forming a view as to the amount receivable at the reporting date.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 4.78% (2017: 4.95%). Advances to suppliers are prepayments for milk to assist with short-term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 7.25% (2017: 7.25%). Non-current prepayments relate to milk supplier premium payments. Accrued revenue primarily relates to receivables from customers under product supply contracts.

9. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Current assets		
Fair value of derivatives	707	1,546
Total current derivative financial instruments	707	1,546
Non-current assets		
Available for sale financial assets - listed equity securities	635	879
Total non-current financial assets	635	879
Total financial assets	**1,342**	**2,425**

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

10. INVENTORIES

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
Raw materials, work in progress and stores	131,546	103,736
Finished goods	100,534	64,162
Carrying amount of inventories at lower of cost or net realisable value	**232,080**	**167,898**

The write-down of inventories to net realisable value requires judgement in assessing future commodity prices, other market conditions, product shelf life and provisions for quality.

11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000
Land and buildings		
At cost	167,802	87,036
Accumulated depreciation	(34,105)	(30,193)
Total land and buildings	133,697	56,843
Plant and equipment		
At cost	456,249	393,837
Accumulated depreciation	(287,000)	(261,912)
Total plant and equipment	169,249	131,925
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,856)
Total leased assets	-	-
Construction in progress	20,639	8,031
Total property, plant and equipment	**323,585**	**196,799**

The movements in property, plant and equipment are:

Consolidated	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Total $'000
Year ending 30 June 2018				
Balance at the beginning of the financial period	8,031	56,843	131,925	196,799
Acquisitions through business combinations	2,381	86,895	37,724	127,000
Capital expenditure	28,466	-	-	28,466
Reclassification	-	(8,157)	8,157	-
Disposals	-	-	(22)	(22)
Depreciation	-	(3,913)	(24,745)	(28,658)
Transfers	(18,239)	2,029	16,210	-
Balance at the end of the financial period	**20,639**	**133,697**	**169,249**	**323,585**
Year ending 30 June 2017				
Balance at the beginning of the financial period	26,400	67,311	126,233	219,944
Capital expenditure	25,269	-	-	25,269
Reclassification	-	(7,305)	7,305	-
Disposals	-	(2,095)	(19,128)	(21,223)
Depreciation	-	(2,717)	(21,959)	(24,676)
Impairment	(2,515)	-	-	(2,515)
Transfers	(41,123)	1,649	39,474	-
Balance at the end of the financial period	**8,031**	**56,843**	**131,925**	**196,799**

12. INTANGIBLE ASSETS

	CONSOLIDATED	
	2018	2017
	$'000	$'000
Brands	140,405	405
Water rights	5,601	1,765
Headwork utilities rights	956	956
Software	35,055	19,524
Goodwill	229,446	-
Total intangible assets	**411,463**	**22,650**

Consolidated	Brands $'000	Software $'000	Water Rights $'000	Goodwill $'000	Other $'000	Total $'000
Year ending 30 June 2018						
Balance at the beginning of the financial period	405	19,524	1,765	-	956	22,650
Acquisitions through business combinations	140,000	264	3,836	229,446	-	373,546
Additions	-	17,375	-	-	551	17,926
Amortisation	-	(2,108)	-	-	(23)	(2,131)
Impairment	-	-	-	-	(528)	(528)
Balance at the end of the financial period	**140,405**	**35,055**	**5,601**	**229,446**	**956**	**411,463**
Year ending 30 June 2017						
Balance at the beginning of the financial period	405	5,733	1,765	-	-	7,903
Additions	-	14,623	-	-	956	15,579
Impairment	-	(832)	-	-	-	(832)
Balance at the end of the financial period	**405**	**19,524**	**1,765**	**-**	**956**	**22,650**

Brands and other identifiable intangible assets

Brands and other identifiable intangible assets purchased by Bega Cheese Group are initially recognised at cost, or at their fair value if acquired as part of a business combination.

These identifiable intangible assets are subsequently measured:

- if they have a finite life, at cost less amortisation, and
- if they have an indefinite life, at cost less accumulated impairment losses.

Finite life brands or other identifiable intangible assets are amortised on a straight-line basis over the shorter of their contractual or useful economic life, being three to 25 years. They are also tested for impairment when an indicator of impairment may exist.

Indefinite life identifiable intangible assets are not amortised but are instead tested for impairment annually, or more frequently if there is an indicator of impairment. Brands or other identifiable intangible assets are determined to have an indefinite life where there is an intention to maintain and support the brand or other intangible asset for an indefinite period.

Water rights

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

Headwork utilities rights

Headwork utilities rights relate to Bega Cheese's right to access extensions of the recently completed Bega Valley Shire Council municipal wastewater system.

Software

Purchased and internally developed software assets are capitalised where there is an identifiable asset that will generate future economic benefits through supporting revenue, supporting effective management and decision making or cost savings.

Ongoing software related costs are capitalised if they extend the useful life or enhance the functionality of the software asset.

Software assets are amortised on a straight-line basis over their estimated useful lives, being three to 10 years and are tested for impairment when an indicator of impairment exists.

12. INTANGIBLE ASSETS (CONT.)

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units (CGU) that are expected to benefit from the business combination in which the goodwill arose.

The Group has identified the Mondelēz Grocery Business, acquired in July 2017 and renamed Bega Foods, to be a stand-alone CGU. This CGU is accountable for the goodwill and major capitalised brands, being:

	2018 $m	2017 $m
Indefinite life brands	140.0	-
Goodwill	229.4	-

The cash flows of the Bega Foods CGU are predominantly independent of the other activities of Bega Cheese Group. As a result, this CGU is subject to annual impairment testing.

Impairment testing requires a high degree of judgement in assessing whether the carrying value of assets are supported by their recoverable amount by applying the net present value of future cash flows derived from such assets using cash flow projections, which have been discounted at an appropriate rate. In calculating net present value of the future cash flows of the Bega Foods CGU for the period FY2019 to FY2024, a number of assumptions are made in respect of matters which are not certain, including judgement as follows:

- a long-term growth rate of 2.0% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 7.0%
- improving gross margins, including from specific spreads products during the forecast period as intense competition following Bega Cheese Group's acquisition of the BGA Foods business normalises and Australian sourced peanuts further strengthen our ties with consumers
- active investment in sales and marketing to support our strong portfolio of brands

Using the base case assumptions, the fair value of the Bega Foods CGU assets less cost to sell was not less than the carrying value of those assets as at 30 June 2018.

Sensitivity analysis

Impairment testing requires a high degree of judgement. As a result, management reviewed the sensitivity of key assumptions applied in the discounted cash flow assessment of the Bega Foods CGU. The key judgement items assessed for sensitivity were as follows:

Variance from base case		
Long-term growth rate	0.5%	less
Discount rate	1.0%	higher
Gross margin improvement per annum	1.5%	less

Improving gross margins will be subject to the ongoing strength of our brands, market conditions, competitor behaviour and the returns available to our customers from the Bega Foods range of products in the future. Some of these factors are beyond the reasonable control of the Group.

Based on the above sensitivity analysis, a reasonably possible change in any single assumption would not result in an impairment loss in Bega Foods CGU as at 30 June 2018.

As a result of the annual impairment reviews, no impairment losses have been recognised in the year.

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2018	2017
	$'000	$'000
Trade payables	181,453	134,681
Deferred income	2,840	1,246
Accrued charges and sundry creditors	41,617	33,397
Total trade and other payables	**225,910**	**169,324**

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

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

14. BORROWINGS

	CONSOLIDATED	
	2018	2017
	$'000	$'000
Current - at amortised cost		
Secured term loans	11	64
Lease liabilities	110	-
Total current borrowings	121	64
Non-current - at amortised cost		
Secured term loans	268,000	217,000
Lease liabilities	7	-
Borrowing costs	(1,025)	(1,720)
Total non-current borrowings	266,982	215,280
Total borrowings	**267,103**	**215,344**

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

15. DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Current liabilities		
Fair value of derivatives	2,018	408
Total derivative financial instruments - liabilities	**2,018**	**408**

For further details on derivatives, see note 21.

16. PROVISIONS

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Current liabilities		
Employee benefits	43,405	32,877
Total current provisions	43,405	32,877
Non-current liabilities		
Employee benefits	1,784	1,722
Total non-current provisions	1,784	1,722
Total provisions	**45,189**	**34,599**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The amount of the provision presented as current of $43,405,000 (2017: $32,877,000) is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months:

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Current leave obligations expected to be settled after 12 months	11,090	7,840

17. SHARE CAPITAL

A. SHARE CAPITAL

	CONSOLIDATED	
	2018 $'000	2017 $'000
Share capital - ordinary shares fully paid	**274,862**	**224,692**

B. MOVEMENT IN SHARE CAPITAL VALUE AND NUMBER OF SHARES

The movement is set out in the following table:

	Ordinary shares Number '000	Ordinary shares $'000
Ordinary shares on issue at 1 July 2016	152,603	103,942
Shares issued under Institutional Placement	22,890	122,464
Share issue transaction costs, net of tax	-	(1,714)
Ordinary shares on issue at 30 June 2017	175,493	224,692
Ordinary shares on issue at 1 July 2017	175,493	224,692
Shares issued under Share Purchase Plan (note 1b)	9,562	50,199
Share issue transaction costs, net of tax	-	(29)
Ordinary shares on issue at 30 June 2018	185,055	274,862

Ordinary shares entitle the holder to participate in dividends and share in the proceeds of winding up the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person, or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

18. RESERVES

A. RESERVES

	CONSOLIDATED	
	2018 $'000	2017 $'000
Share-based payment reserve	508	211
Capital profits reserve	33,959	33,959
Hedging reserve	(442)	132
Fair value reserve	8	(79)
Transactions with non-controlling interests reserve	(12,567)	(12,567)
Total reserves	**21,466**	**21,656**

B. NATURE AND PURPOSE OF RESERVES

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

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

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

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

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

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2018 $'000	**2017** $'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	21,669	475,533
Balance per statement of cash flow	**21,669**	**475,533**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	28,768	138,748
Adjustments for non-cash, investing and financing items:		
Depreciation of non-current assets	28,658	24,676
Amortisation of intangible assets	2,131	-
Loss/(profit) on sale of property, plant and equipment	8	(177,707)
(Profit) on sale of shares in listed companies	(1,708)	-
Payments related to corporate activity	13,916	13,147
Income taxes payable on sale of property, plant and equipment	-	53,350
Impairment of tangible assets	-	2,515
Impairment of intangible assets	528	832
Non-cash employee expense - share-based payments	297	117
Fair value adjustment to derivatives	1,546	(1,639)
Interest income received and receivable	(854)	(437)
Dividend received and receivable	(25)	(15)
Share of net profit of joint venture	(606)	(855)
(Gain) on bargain purchase	(4,426)	-
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables and GST recoverable	(36,438)	(10,795)
Inventories	(16,819)	24,500
Prepayments	(4,383)	(4,067)
Current and deferred tax asset	342	(10,455)
Increase/(decrease) in liabilities:		
Trade and other payables	49,241	11,620
Current tax liabilities excluding taxation on investments	(3,738)	5,505
Provisions	2,126	1,181
Net cash inflow from operating activities	**58,564**	**70,221**

RISK

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 7 - income tax, note 8 - trade and other receivables, note 10 - inventories, note 11 - intangible assets and note 13 – trade and other payables.

21. FINANCIAL RISK MANAGEMENT

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

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

A. MARKET RISK

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

Foreign exchange risk

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

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

	CONSOLIDATED									
	USD 2018 $'000	JPY 2018 $'000	EUR 2018 $'000	NZD 2018 $'000	CAD 2018 $'000	USD 2017 $'000	JPY 2017 $'000	EUR 2017 $'000	NZD 2017 $'000	CAD 2017 $'000
Trade receivables	**17,845**	**-**	**349**	**337**	**-**	**22,757**	**-**	**588**	**224**	**-**
Trade payables	**4,007**	**-**	**562**	**102**	**27**	**2,270**	**-**	**80**	**5,702**	**-**
Forward exchange contracts										
Buy foreign currency (fair value hedges)	31,750	-	884	-	-	13,549	-	4,776	19,531	-
Sell foreign currency (cash flow hedges)	69,469	-	-	-	-	27,882	-	-	-	-
Sell foreign currency (fair value hedges)	17,006	2,880	-	728	-	17,503	1,591	575	1,148	-

21. FINANCIAL RISK MANAGEMENT (CONT.)

Group sensitivity

This is based on the financial instruments held on 30 June 2018, had the Australian dollar strengthened or weakened by 10% against the US dollar, Euro, NZD, Japanese Yen and Canadian dollar with all other variables held constant. The analysis is performed on the same basis for 2017 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The Group sensitivity is detailed in the following table:

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Equity		
AUD$ strengthens 10% - increase/(decrease)	4,421	1,704
AUD$ weakens 10% - (decrease)/increase	(5,403)	(2,077)

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Historically, the Group has used interest rate swaps as appropriate to manage interest rate risk. Due to a sustained low market interest rates, there were no interest rate swaps in place at 30 June 2017 or 2018 but the use of interest rate swaps is regularly monitored and reviewed as to their effectiveness by the Group. All borrowings were denominated in Australian dollars during 2018 and 2017.

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Fixed rate instruments		
Assets		
Vat and supplier loans	2,318	2,803
Liabilities		
Bank overdrafts and loans	(11)	(64)
Finance leases	(117)	-
Variable rate instruments		
Assets		
Cash and cash equivalents	21,669	475,533
Liabilities		
Bank overdrafts and loans	(266,975)	(215,280)
Net exposure to interest rate risk on variable rate instruments	**(245,306)**	**260,253**

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

Interest rate sensitivity

At 30 June 2018, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's post-tax profit for the year would have been $1,663,000 lower/(higher) (2017: $355,000 higher/(lower)).

Price risk

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

At 30 June 2018, if the share price increased/(decreased) by +/- 10% from the year end prices with all other variables held constant, the Group's shareholders' equity for the year would have been $63,500 higher/(lower) (2017: $61,500 higher/(lower)).

21. FINANCIAL RISK MANAGEMENT (CONT.)

B. CREDIT RISK

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 8 and note 9. For some trade receivables, the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit that can be called upon if the counterparty is in default under the terms of the agreement. In addition, the Group obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Cash and cash equivalents	21,669	475,533
Trade receivables	177,451	141,540
Accrued revenue	4,889	748
Other receivables	10,557	18,056
Vat loans to farmers	7	57
Advances to farmers	2,311	2,746
Fair value derivatives	707	1,546
Total credit risk exposure	**217,591**	**640,226**

There is considered to be limited credit risk in the balances of other receivables due to their nature as entities with which close commercial relationships are maintained, related parties or government agencies. Bega Cheese Group manages amounts payable by direct milk suppliers to the Group for supplier advances, loans or other prepayments for milk so as to mitigate any material exposure to default.

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Not past due	158,869	131,529
Past due 0-30 days	11,963	4,181
Past due over 30 days	6,729	6,086
Trade receivables at 30 June	**177,561**	**141,796**

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

21. FINANCIAL RISK MANAGEMENT (CONT.)

C. LIQUIDITY RISK

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

Financing arrangements

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Undrawn facilities expiring within one year	170,289	76,436
Undrawn facilities expiring beyond one year	48,500	169,500
Drawn facilities	268,011	217,064
Total facilities	**486,800**	**463,000**
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	70,000	70,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	10,000	10,000
Syndicated Facility - 2 year Revolving Cash Advance Facility	200,000	200,000
Syndicated Facility - 3 year Term Facility	100,000	100,000
Inventory Facility	100,000	75,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	300	1,500
Total facilities	**486,800**	**463,000**

The Group financing arrangements include a syndicated facility structure funded by Coöperatieve Rabobank U.A. (Australia Branch) and Westpac Banking Corporation. The Syndicated Facility includes three revolving cash advance facilities totalling $280 million (with maturity dates between 31 January 2019 and 31 January 2021) and a term facility totalling $100 million (matures on 1 July 2020). The Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited and Tatura Milk Industries Limited.

In addition to the Syndicated Facility, the Group continues to operate three separate banking facilities including; an Inventory Facility (matures on 30 March 2019), an Overdraft Facility (matures on 1 July 2019) and the Vat Financing Facility (matures on 28 February 2019) which are stand - alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 23.

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

i. the leverage ratio must not be greater than 3.50 times at 30 June 2018, then decreasing to 3.00 times at 30 June 2019

ii. the interest cover ratio (EBIT/Net Interest Expense) must be greater than 2.50 times; and

iii. shareholder funds must be greater than $250 million.

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

On 17 August 2018 Bega Cheese Group entered into a Revised Syndicated Facility, details of which are set out in note 29c.

21. FINANCIAL RISK MANAGEMENT (CONT.)

Maturities of financial liabilities

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

Consolidated	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2018						
Non-derivatives						
Finance leases	(68)	(45)	-	-	(113)	(117)
Secured bank loans	(10,489)	(174,056)	(100,012)	-	(284,557)	(266,986)
Trade and other payables	(225,910)	-	-	-	(225,910)	(225,910)
Derivatives						
Inflows	32,634	-	-	-	32,634	33,341
Outflows	(33,342)	-	-	-	(33,342)	(35,359)
Total financial liabilities	**(237,175)**	**(174,101)**	**(100,012)**	**-**	**(511,288)**	**(495,031)**
At 30 June 2017						
Non-derivatives						
Secured bank loans	(7,018)	(124,173)	(103,827)	-	(235,018)	(215,344)
Trade and other payables	(169,324)	-	-	-	(169,324)	(169,324)
Derivatives						
Inflows	37,856	-	-	-	37,856	37,672
Outflows	(37,466)	-	-	-	(37,466)	(38,080)
Total financial liabilities	**(175,952)**	**(124,173)**	**(103,827)**	**-**	**(403,952)**	**(385,076)**

D. FAIR VALUE ESTIMATION

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

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

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

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

ii. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2)

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

21. FINANCIAL RISK MANAGEMENT (CONT.)

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

Consolidated	Level 1 $'000	Level 2 $'000	Total $'000
At 30 June 2018			
Assets			
Derivatives used for hedging	-	707	707
Available for sale financial assets - listed equity securities	635	-	635
Total assets	**635**	**707**	**1,342**
Liabilities			
Derivatives used for hedging	-	(2,018)	(2,018)
Total liabilities	**-**	**(2,018)**	**(2,018)**
At 30 June 2017			
Assets			
Derivatives used for hedging	-	1,546	1,546
Available for sale financial assets - listed equity securities	879	-	879
Total assets	**879**	**1,546**	**2,425**
Liabilities			
Derivatives used for hedging	-	(408)	(408)
Total liabilities	**-**	**(408)**	**(408)**

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

22. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and generate adequate returns to shareholders.

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Net debt/(net cash): borrowings net of cash at bank	246,342	(258,469)
Total equity	631,991	572,674
Net debt to equity ratio	**39%**	**N/A**

GROUP STRUCTURE

23. PARENT ENTITY FINANCIAL INFORMATION

A. SUMMARY FINANCIAL INFORMATION

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

	BEGA CHEESE	
	2018 $'000	2017 $'000
Current assets	346,557	703,523
Total assets	1,060,605	930,083
Current liabilities	(392,908)	(370,500)
Total liabilities	(697,708)	(586,781)
Net assets	**362,897**	**343,302**
Shareholder's equity		
Issued capital of parent entity	275,432	225,262
Reserves		
Share-based payment reserve	508	211
Capital profits reserve	32,565	32,565
Fair value reserve	8	(79)
Retained earnings	54,384	85,343
Total equity	**362,897**	**343,302**
(Loss) after tax for the year	(8,137)	(5,176)
Total comprehensive (loss)	(8,050)	(5,071)

Current assets and liabilities of Bega Cheese include intercompany loans.

B. GUARANTEES ENTERED INTO BY PARENT ENTITY

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

C. CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017 except as disclosed in note 27.

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

As at 30 June 2018, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,399,000 (2017: $2,833,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. SUBSIDIARIES AND JOINT ARRANGEMENTS

	Country of incorporation	Nature of relationship	2018 % of ownership interest	2017 % of ownership interest
Tatura Milk Industries Limited	Australia	Subsidiary	100	100
Bega Cheese Investments Pty Ltd	Australia	Subsidiary	100	100
Peanut Company of Australia Limited	Australia	Subsidiary	100	-
Bemore Partnership	Australia	Joint Operation	50	50
Capitol Chilled Foods (Australia) Pty Ltd (CCFA)	Australia	Joint Venture	25	25

A. INTEREST IN JOINT OPERATION

Bemore Partnership

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

	BEMORE	
	2018 $'000	**2017** $'000
Revenue	531	981
Cost of sales	1	(6,433)
Gross profit/(loss)	**532**	**(5,452)**
Other income and expenses	42	(1,507)
Profit/(loss) for the year	**574**	**(6,959)**
Cash and cash equivalents	-	217
Trade and other receivables	-	556
Total assets	**-**	**773**
Other payables	-	97
Payables to joint operators	-	682
Provisions	-	567
Loans from joint operators	7,200	7,200
Total liabilities	7,200	**8,546**
Net liabilities	**(7,200)**	**(7,773)**

Accounting policies applied for the Bemore Partnership are described in note 33b.

B. INTEREST IN JOINT VENTURE

CCFA

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

	CCFA	
	2018 $'000	**2017** $'000
Share of net profit of joint venture	606	855
Investments accounted for using the equity method	1,393	1,288

Accounting policies applied for the joint venture are described in note 33b.

25. CLOSED GROUP DISCLOSURE

Bega Cheese, Tatura Milk, Bega Cheese Investments Pty Ltd and PCA are all party to a deed of cross guarantee under which each company guarantees the debts of the other. The above companies represent a "closed Group" for the purposes of the Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Bega Cheese Limited, they also represent the "extended closed Group". By entering into the deed, Tatura Milk and Bega Cheese Investments Pty Ltd have been relieved from the requirement to prepare a financial report and Directors' report under Instrument 2016/785, issued by the Australian Securities and Investments Commission.

26. BUSINESS COMBINATION

A. BEGA FOODS

On 4 July 2017 Bega Cheese completed the acquisition of the Mondelēz Grocery Business which included the iconic Vegemite brand.

The fair values of the assets and liabilities of the Mondelēz Grocery Business as at the date of acquisition are as follows for acquisition accounting purposes:

	Bega Foods Fair value $'000
Inventories	34,000
Prepayments	726
Intangible assets	140,199
Land and buildings	68,930
Plant and equipment	28,744
Employee benefits	(6,300)
Other liabilities	(2,556)
Deferred tax liabilities	(40,463)
Fair value of identifiable net assets acquired	**223,280**
Goodwill	229,446
Net assets acquired	**452,726**
Purchase consideration:	
Cash paid	452,726

i. Consideration transferred

Bega Foods acquisition costs amounting to $12,869,000 (before tax) are not included as part of consideration transferred and have been recognised as an expense in the Consolidated Statement of Comprehensive Income for statutory reporting purposes, although these costs have been treated as one-off for the purposes of considering the underlying performance of the Group.

ii. Identifiable net assets

The fair values of the identifiable assets and liabilities have been determined using estimates by management and valuation reports by independent experts. The Group has finalised the acquisition accounting for Bega Foods in the FY2018 statutory accounts.

26. BUSINESS COMBINATION (CONT.)

B. PEANUT COMPANY OF AUSTRALIA (PCA)

On 11 December 2017 Bega Cheese held 53% of the issued share capital and voting rights of PCA. As a result, the Group has used 11 December 2017 as the date on which it gained control for consolidation purposes. On 25 January 2018 Bega Cheese completed the acquisition of 100% of PCA.

The provisionally determined fair values of the assets and liabilities of PCA are as follows:

	PCA Provisional Fair value $'000
Cash and cash equivalents	282
Trade and other receivables	6,595
Inventories	13,363
Intangible assets	3,901
Land and buildings	17,965
Plant and equipment	11,361
Trade and other payables	(4,964)
Borrowings	(29,890)
Employee benefits	(2,164)
Derivatives financial instruments	(83)
Fair value of identifiable net assets acquired	**16,366**
Purchase consideration:	
Cash paid	11,940
Gain on bargain purchase	4,426

i. Consideration transferred

PCA acquisition costs amounting to $3,142,000 (before tax) are not included as part of consideration transferred and have been recognised as an expense in the Consolidated Statement of Comprehensive Income for statutory reporting purposes, although these costs have been treated as one-off for the purposes of considering the underlying performance of the Group.

ii. Identifiable net assets

The fair values of the identifiable assets and liabilities have been provisionally determined using estimates by management and valuation reports by independent experts.

iii. PCA's contribution to the Group's results

PCA contribution to the Group's revenues and profits, respectively from the date Bega Cheese gained control of PCA to 30 June 2018 has been taken to account through the Consolidated Statement of Comprehensive Income.

As at 30 June 2018 the Group owned 100% of the issued share capital and voting rights of PCA.

C. KOROIT DAIRY MANUFACTURING FACILITY

Subsequent to the end of FY2018 Bega Cheese completed the acquisition of the Koroit dairy manufacturing facility, which will be recognised for business combination accounting purposes in FY2019 (refer note 29b).

UNRECOGNISED ITEMS

27. CONTINGENT LIABILITIES

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 13). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. In addition, Bega Cheese is currently subject to separate legal actions by each of Kraft Heinz and Fonterra (refer note 1), the outcome of which is uncertain at the date of this report. Bega Cheese received detailed legal advice and does not expect these matters to have a material impact on the financial performance or position of the Group. Based on all available information and professional advice, management considers there are no significant contingent liabilities at 30 June 2018. The Group has bank guarantees as at 30 June 2018 totalling $4,386,000.

28. COMMITMENTS

A. CAPITAL COMMITMENTS

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	2,616	4,306

B. LEASE COMMITMENTS - GROUP AS LESSEE

Non-cancellable operating and finance leases consist of the following types:

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Equipment	2,021	1,773
Motor vehicles	512	303
Land and buildings	4,310	4,624
Total lease commitments	**6,843**	**6,700**

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

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

	CONSOLIDATED	
	2018 $'000	**2017** $'000
Within one year	3,378	2,093
Between one and five years	3,445	4,575
Later than five years	20	32
Total lease commitments	**6,843**	**6,700**

29. SUBSEQUENT EVENTS

The financial impact of the transactions set out below which occurred after 30 June 2018 has not been recognised in these financial statements.

A. DIVIDEND

On 29 August 2018, the Directors declared a final fully franked dividend of 5.5 cents per share, which represents a distribution of $10,178,000.

B. PURCHASE OF KOROIT

On 17 August 2018 the Group announced it had acquired Saputo's Koroit dairy processing facility located at Koroit in Western Victoria.

The Koroit Facility currently processes approximately 300 million litres of milk into bulk and retail butter, commodity and retail milk powders and growing up milk powder.

The acquisition price is $250 million including average inventory, which will be fully funded by new and existing bank debt facilities.

As a part of the transaction Bega Cheese and Saputo have entered into a Transition Services Agreement and a Milk Supply Guarantee Agreement whereby Saputo is required to guarantee supply of 300 million litres of milk per annum until 30 June 2020.

29. SUBSEQUENT EVENTS (CONT.)

Apart from some pre-acquisition transaction costs, the financial effects of this transaction have not been recognised at 30 June 2018. The operating results and assets and liabilities of the acquired company will be consolidated from 17 August 2018.

The provisionally determined fair values of the assets and liabilities of Koroit are as follows:

	Koroit Provisional Fair value $'000
Inventories	26,435
Land and buildings	41,251
Plant and equipment	69,555
Employee benefits	(3,400)
Fair value of identifiable net assets acquired	**133,841**
Goodwill	116,159
Net assets acquired	**250,000**
Purchase consideration:	
Cash paid	250,000

Acquisition-related costs amounting to $800,000 have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in FY2018. Further costs of acquisition will be recognised as an expense in profit or loss in FY2019.

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of Koroit. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuations have not been finalised. It is also not yet possible to provide detailed information about any contingent liabilities of the acquired entity.

C. REVISED SYNDICATED FACILITY

On 17 August 2018 Bega Cheese Group entered into a revised Group syndicated debt facility structure funded by Coöperatieve Rabobank U.A. (Australia Branch) and Westpac Banking Corporation (Revised Syndicated Facility). The Revised Syndicated Facility includes three revolving cash advance facilities totalling $410 million (with maturity dates between 31 January 2019 and 31 August 2021) and two term facilities totalling $280 million (with maturity dates between 16 August 2019 and 1 July 2020). The Revised Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited and Tatura Milk Industries.

In addition to the Revised Syndicated Facility, the Group continues to operate three separate banking facilities including; an Inventory Facility (matures on 30 March 2019), an Overdraft Facility (matures on 1 July 2019) and the Vat Financing Facility (matures on 28 February 2019) which are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 25.

Under the Revised Syndicated Facility Bega Cheese Group is required to comply with the following covenants:

i. the leverage ratio must not be greater than 4.50 times at 30 September 2018, then progressively decreasing each quarter to 3.00 times at 30 September 2019

ii. the interest cover ratio must be equal or greater than 2.50 times; and

iii. shareholder funds must be equal or greater than $450 million.

Provided below is a comparison of the Syndicated Facility structure as at 30 June 2018 (and up to 16 August 2018) and the Revised Syndicated Facility from 17 August 2018.

Total facilities are represented by:

	CONSOLIDATED	
	2018 $'000	Current $'000
Syndicated Facility - 3 year Cash Advance Facility	70,000	70,000
Syndicated Facility - 5 year Cash Advance Facility	10,000	140,000
Syndicated Facility - 2 year Cash Advance Facility	200,000	200,000
Syndicated Facility - Term Facility	100,000	100,000
Syndicated Facility - Term Facility	-	180,000
Other facilities		
Inventory Facility	100,000	100,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	300	300
	486,800	**796,800**

OTHER INFORMATION

30. RELATED PARTY TRANSACTIONS

A. TERMS AND CONDITIONS OF RELATED PARTY TRANSACTIONS

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

B. RELATED PARTY TRANSACTIONS WITH GROUP ENTITIES

Details of transactions between the Group and other related parties are disclosed below. During the period the Group had the following transactions with Bemore:

	CONSOLIDATED	
	2018 $	2017 $
Sales made by Tatura to Bemore	2,583	1,904,660
Amounts payable by Bemore to Tatura at period end	-	341,310
Sales made by Bemore to Tatura	-	634,258
Amounts payable by Tatura to Bemore at period end	-	634,258
Storage charges paid by Bemore to Tatura	38,563	-

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

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

	CONSOLIDATED	
	2018 $	2017 $
Sales made to CCFA	5,880,412	5,877,976
Rent paid by CCFA to Bega Cheese	228,924	224,664
Amounts payable by CCFA to Bega Cheese at period end	637,053	483,797

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

C. KEY MANAGEMENT PERSONNEL REMUNERATION AND TRANSACTIONS

	CONSOLIDATED	
	2018 $	2017 $
Short-term employee benefits	2,952,617	4,695,720
Post-employment benefits	119,533	239,019
Other long-term employee benefits	321,065	362,879
Share-based payments	264,730	117,039
Total employee benefits	**3,657,945**	**5,414,657**

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

	CONSOLIDATED	
	2018 $	2017 $
Payments made by the Group during the year	7,060,605	8,378,898
Amounts outstanding at year end	499,694	542,927

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

31. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2018 $	2017 $
Audit services		
PwC Australia - Audit and review of financial statements	724,500	465,000
Non-PwC firm - Audit and review of financial statements of the joint arrangements	-	7,500
Non-audit services		
PwC Australia - Other services	373,222	181,200
PwC Other network teams - Other services	-	2,000
Non-PwC firm - Other services	-	75,818

From time to time the Group may engage PwC Australia on assignments additional to the statutory audit duties where their experiences with the Group is important, provided such assignments do not give rise to a potential conflict of interest. During the current and prior years PwC provided non-audit services relating to capital raising, due diligence and share schemes.

32. SHARE-BASED PAYMENTS

EXPENSES ARISING FROM BEGA CHEESE LIMITED LONG-TERM INCENTIVE PLAN

The Bega Cheese Limited 2017-2019 Long-Term Incentive Plan (2019 Plan) was established in FY2017 and is designed to provide long-term incentives to the CEO to deliver shareholder returns. Under the 2019 Plan, the CEO is granted share rights which only vest if certain performance standards are met. Under the 2019 Plan he was awarded 66,370 performance rights not yet vested resulting in $117,039 being expensed in FY2017 and $117,361 expensed in FY2018.

The Bega Cheese Limited 2018-2020 Long-Term Incentive Plan (2020 Plan) was established in FY2018 and is designed to provide long-term incentives to the CEO and executive team to deliver shareholder returns. Under the Plan, each member of the executive team is granted share rights which only vest if certain performance standards are met. Under the 2020 Plan there was 134,300 performance rights awarded, not yet vested resulting in $273,668 being expensed in FY2018.

	CONSOLIDATED	
	2018 $'000	2017 $'000
Entitlements due under employee share schemes:		
Expense in relation to Long-Term Incentive Plan	(391)	(117)
Other share scheme movement	94	-
Total employee share scheme expense	**(297)**	**(117)**

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bega Cheese and the entities it controlled at year end or from time to time during the financial year. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 29 August 2018. The Directors have the power to amend and re-issue the financial statements.

A. BASIS OF PREPARATION

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

Compliance with IFRS

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

New and amended standards adopted by the Group

There have been no new accounting standards interpretations or amendments to standards published that were mandatory for the first time for the financial year beginning 1 July 2017 that have a significant impact for the Group.

Early adoption of standards

The Group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2017.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the financial statements are disclosed in note 20. Certain items in the Consolidated Statement of Cash Flows have been reclassified in the prior period to better reflect their nature as investing activities rather than operating activities.

B. PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2018 and the results of all subsidiaries for the year then ended. Bega Cheese and the entities it controlled together are referred to in this financial report as the Bega Cheese Group, the Group, the consolidated entity.

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

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

Joint operation

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

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

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

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Joint venture

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

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

C. SEGMENT REPORTING

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

D. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

E. REVENUE RECOGNITION

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

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

Revenue is recognised for the major business activities as follows:

Sale of goods and disposal of assets

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

Services

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

Royalties and rental revenue

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

Interest income

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

Dividends

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. GOVERNMENT GRANTS

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

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

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

G. INCOME TAX

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

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

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

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

Following guidance published by the International Financial Reporting Interpretations Committee (IFRIC) during the prior year, the Group changed its accounting policy for the accounting of deferred income tax on intangible assets with indefinite useful lives. The Group had previously assumed that water rights acquired as part of a business combination would be recovered through use as this is a better reflection on how the Group expects to recover those assets. This resulted in the recognition of a deferred tax liability in the prior year.

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

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

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

H. LEASES

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the lease liability and finance cost. The finance costs charged to the profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. BUSINESS COMBINATIONS

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

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

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If the fair value of the net identifiable assets acquired exceeds the consideration transferred this amount is recognised immediately as a gain on bargain purchase in the Consolidated Statement of Comprehensive Income.

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

J. IMPAIRMENT OF ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets or cash generating units (CGUs).

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value measurement is covered by AASB 13 and defines fair value of an asset as the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The Group uses a discounted cash flow model to assess the fair value less costs of disposal for impairment testing purposes of the Bega Foods CGU.

Bega Cheese Group uses discounted cash flow modelling to assess the fair value less cost of disposal for impairment testing. The estimated future cash flows are based on reasonable underlying financial and operational assumptions at the time including having regard to each of:

- recent actual historical performance
- business plans, budgets and other forecasts reflecting the short to medium-term outlook
- strategic plans defining the longer-term outlook and strategy approved for the business and related identifiable intangible assets.

The future cash flows are discounted to their present value using a discount rate reflecting the appropriate weighted average cost of capital based on capital market conditions, risk free rates, underlying growth rates and the risks specific to the asset at the time of the assessment. Key cash flow and discount rate assumptions are based on management judgement and also refer to external data and input from independent experts as required.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

K. CASH AND CASH EQUIVALENTS

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

L. TRADE RECEIVABLES

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

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

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. INVENTORIES

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

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

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

N. INVESTMENTS AND OTHER FINANCIAL ASSETS

Loans and receivables

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

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

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

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

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

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

Available for sale financial assets

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

O. DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cash flow hedge

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

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

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

Fair value hedge

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

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

P. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

Q. INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Brands and other identifiable intangible assets

Brands and other identifiable intangible assets purchased by Bega Cheese Group are initially recognised at cost, or at their fair value if acquired as part of a business combination.

These identifiable intangible assets are subsequently measured:

- if they have a finite life, at cost less amortisation, and
- if they have an indefinite life, at cost less accumulated impairment losses.

Finite life brands or other identifiable intangible assets are amortised on a straight-line basis over the shorter of their contractual or useful economic life, being three to 25 years. They are also tested for impairment when an indicator of impairment may exist.

Indefinite life identifiable intangible assets are not amortised but are instead tested for impairment annually, or more frequently if there is an indicator of impairment. Brands or other identifiable intangible assets are determined to have an indefinite life where there is an intention to maintain and support the brand or other intangible asset for an indefinite period.

Such assets are tested for impairment in accordance with the policy stated in note 33j.

Water rights

Water rights are recognised at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 33j.

Headwork utilities rights

Headwork utilities rights are recognised at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 33j.

Software

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

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

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

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

Capitalised development costs are recorded as intangible assets and will be amortised from the point at which the asset is ready for use using the straight line method over its estimated useful life, being three to 10 years.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible asset acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

R. TRADE AND OTHER PAYABLES

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

S. BORROWINGS

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

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

Borrowing costs are expensed as incurred unless they relate to significant qualifying assets.

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

T. PROVISIONS

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

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

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

U. EMPLOYEE BENEFITS

Short-term obligations

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

Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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

Retirement benefit obligations

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

Share-based payments

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

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

Profit-sharing and bonus plans

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

V. CONTRIBUTED EQUITY

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

W. DIVIDENDS

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

X. EARNINGS PER SHARE

i. Basic earnings per share

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

ii. Diluted earnings per share

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

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

Y. RESEARCH AND DEVELOPMENT COSTS

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

Z. GOODS AND SERVICES TAX (GST)

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

AA. ROUNDING OF AMOUNTS

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

AB. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. The Group's assessment of the impact of these new standards and interpretations as applicable to the Group is set out below.

i. AASB 9 *Financial Instruments* (effective for annual reporting periods commencing on or after 1 January 2018). The Group will adopt AASB 9 from 1 July 2018.

   AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. It simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. The standard also introduces a new impairment model that will require companies to account for expected credit losses at the time the asset is recognised, rather than only incurred credit losses as is the case per AASB 139.

   The Group is currently assessing the impact of the changes but does not foresee any significant impact to the Group's Consolidated Statement of Comprehensive Income or Consolidated Balance Sheet from applying this new accounting standard on the basis that the Group's historic credit losses and hedging activity are not significant. AASB 9 also introduces a number of new disclosure requirements which are currently being assessed by the Group.

ii. AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods commencing on or after 1 January 2018). The Group will adopt AASB 15 from 1 July 2018.

   AASB 15 replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The core principle of AASB 15 is that an entity should recognise revenue for the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

   The Group will recognise revenue in accordance with the core principle by applying the following steps:

   - Step 1: Identify the contract(s) with a customer
   - Step 2: Identify the performance obligations in the contract
   - Step 3: Determine the transaction price
   - Step 4: Allocate the transaction price to the performance obligations in the contract
   - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

   The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has commenced its assessment of the effects of applying the new standard on the Group's financial statements.

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The Group is currently reviewing various customer arrangements to assess whether, in some cases, the application of the new standard may result in the identification of separate performance obligations, which could affect the timing of the recognition of revenue. The key impacts for the Group is considering are:

- Multiple element arrangements: AASB 15 requires that at contract inception, the Group assesses the goods or services promised in the contract with a customer and identify as a performance obligation each promise to transfer to the customer. Promises in a contract can be explicit, or implicit if the promises create a valid expectation to provide a good or service based on the customer business practices, published policies, or specific statements. The Group is party to a number of arrangements with customers which include more than just goods being sold to the customer. These arrangements can include manufacturing of products, management services, maintenance and shipping services. Under AASB 15 each element of these arrangements should be treated as a separate performance obligation and require an appropriate transaction price to be allocated. This may result in the timing of revenue recognition to change

- Variable consideration: The Group is party to product supply contracts with customers that require a periodic reconciliation to specific terms of those contracts which may result in payments being made to or received from customers. AASB 15 requires that the estimated amount of variable consideration is to be taken into account to the extent it is highly probable a significant reversal or increase in cumulative revenue will not occur. The Group currently adopts an accounting policy whereby revenue is not recognised where there is uncertainty about the collectability of the revenue. On this basis, there is not expected to be different accounting treatment under AASB 15

- Transfer of control: The Group has customer arrangements whereby the customer takes legal title and risk of loss of goods once they have been manufactured. In some instances, the Group then arranges for shipping of the goods to the customer. Under AASB 15 the manufacturing of goods and shipping services are treated as separate performance obligations, potentially resulting in revenue being recognised at the end of the production process rather than on delivery under AASB 118

- Royalties and license fees: The Group has entered into arrangements with customers for the use of its brand names and receives royalties and license fees for this right. Under AASB 15 any fixed amounts will be recognised over the license period and any sales-based royalty will be recognised as the customer sells the goods. Royalty and license fee revenue is not expected to be recognised differently to AASB 118.

Further work is required to quantify the specific impacts which will be disclosed in the 2019 Interim Report for the Half-Year ended 30 December 2018.

iii. AASB 16 *Leases* (effective for annual reporting periods commencing on or after 1 January 2019). The Group will adopt AASB 16 from 1 July 2019.

The AASB has issued a new standard for lease accounting. AASB 16 will replace AASB 117. AASB 16 introduces a single, on-balance sheet accounting model, similar to the current finance lease accounting. The standard includes two recognition exemptions for lessees, being lease of “low-value” assets and short-term leases.

Under the new standard the Group will be required to recognise a ‘right-of-use’ asset and a lease liability for all identified leased assets in the balance sheet. The current operating lease expense will be replaced with a depreciation and finance charge.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group is currently assessing the impact of the new standard on the statement of comprehensive income and balance sheet. While there is not expected to be a material impact on overall cashflows and net profit or loss, the quantification of such impacts cannot be reliably measured until further work is performed.

The standard must be implemented using either a full retrospective approach or a modified retrospective approach. Under the modified retrospective approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2019), without restating the comparative period.

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

AC. PARENT ENTITY FINANCIAL INFORMATION

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

i. Investments in subsidiaries and joint venture entities

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

ii. Dividend income

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

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 36 to 79 are in accordance with the *Corporations Act 2001*, including:

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

ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

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

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

Note 33 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

B.A. Irvin.

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

29 August 2018

INDEPENDENT AUDITOR'S REPORT

To the members of Bega Cheese Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OUR OPINION

In our opinion:

The accompanying financial report of Bega Cheese Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001,* including:

a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

pwc

OUR AUDIT APPROACH

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit, we used overall Group materiality of $3.5 million, which represents approximately 5% of the Group's profit before tax, adjusted for the impact of unusual or infrequently occurring items (as described below).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is a benchmark against which the performance of the Group is commonly measured and is a generally accepted benchmark. We adjusted for the impact of the one-off events as disclosed in note 2 as these are unusual or infrequently occurring items impacting the statement of comprehensive income.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group operates in Australia and the audit is conducted by one team. The audit is aligned with the geographic and divisional structure of Bega Cheese Ltd. The accounting processes are structured around a Group finance function at its corporate head office in Bega. We attended the sites in Kingaroy, Melbourne, Tatura and the head office in Bega to perform our audit procedures.

pwc

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
The carrying value of goodwill and other intangible assets - Bega Foods Refer to note 12	
At the year end, the Group has recognised goodwill and indefinite lived intangible assets in relation to the Bega Foods acquisition of $369 million. The Group exercised judgement in testing the carrying value of the goodwill and other indefinite lived intangible assets that were recognised as a result of the Bega Foods acquisition. This was a key audit matter due to: • The magnitude of the goodwill and intangible asset balance held by the Group. • The level of judgement made in the valuation model, including forecasting future cash flows and determining the appropriate discount and long term growth rates. • The accounting judgement in determining the cash generating units (CGUs) across the Group following the acquisition. We communicated the key audit matters to the Audit & Risk Committee.	We obtained the Group's "fair value less costs to dispose" model (the model) used to test the impairment of the Bega Foods CGU and checked the mathematical accuracy of the calculations. We evaluated and challenged the Group's cash flow forecasts and the process by which they were developed, with reference to the historical performance of the acquired business. We compared the forecasts in the model to the Board approved budget and found them to be consistent. We were assisted by PwC valuation experts in assessing the methodologies and the main assumptions included in the model. In particular, we compared the discount and long term growth rates used in the impairment model with rates generally observed in the industry. We assessed key growth assumptions within the model with specific focus on forecast revenue and profit margins. We tested the sensitivity of the calculations by varying the key assumptions, using a range of possible rates. We considered whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations. We also benchmarked the assumptions and conclusion made by the Group against a selection of similar assets held by other industry participants. In addition, we considered the significant accounting policy disclosed in note 12 for consistency with Australian Accounting Standards.

pwc

Key audit matter	How our audit addressed the key audit matter
Business combinations accounting – Bega Foods and Peanut Company of Australia Refer to note 26 On 4 July 2017, the Group completed the acquisition of Bega Foods for a consideration of $453 million and the acquisition accounting has been finalised in the accompanying financial report. On 11 December 2017, the Group completed the acquisition of the Peanut Company of Australia for a consideration of $12 million. These acquisitions were key audit matters given: • the magnitude of the transactions in the year • the judgements required by the Group in identifying and determining the fair value of the identifiable net assets (in particular identified intangible assets, property, plant and equipment, inventory and tax balances). We communicated the key audit matters to the Audit & Risk Committee.	For Bega Foods, we obtained a detailed reconciliation between the final acquired balance sheet and the provisional acquired balance sheet disclosed in the 30 June 2017 financial report. For all adjustments, we considered the fair values adopted in the 30 June 2017 financial report, and tested a sample of adjustments to management's calculations and supporting evidence. For the Peanut Company of Australia, we obtained and read the sale and purchase agreement to develop an understanding of the terms and conditions of the transaction. In auditing the Peanut Company of Australia's identifiable net assets acquired we: • Attended physical inventory counts close to acquisition date. • Assessed whether a deferred tax asset for carried forward losses should be recognised in light of the requirements of the Australian Accounting Standards. • Compared the fair value of property, plant and equipment and identified intangible assets to third party valuation reports and considered the Group's external valuers' competency, qualifications, experience and objectivity, as well as the appropriateness of the methodologies used in these valuations in the context of generally accepted valuation techniques for similar assets. • Checked the appropriateness of recognising the gain on bargain purchase with reference to Accounting Standards AASB 3 *Business Combinations.* • Re-performed the calculation of the resultant gain on a bargain purchase. We also considered the adequacy of the Group's disclosures in the light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation Refer to note 10 This was a key audit matter due to: • The inventory costing and provisioning process is complex and there are different approaches across the Group. • Provisioning for quality and obsolescence issues requiring judgement. • Recent volatility in commodity prices increased the risk of inventory cost being in excess of its net realisable value. We communicated the key audit matters to the Audit & Risk Committee.	In auditing inventory valuation, we: • Read the minutes of Board and management meetings to identify potential quality issues. • Discussed quality issues with management and the feasibility of plans for re-processing or disposal of inventory. • Discussed quality claims from customers and analysed credit notes and other sales adjustments processed after year end. • Analysed a sample of inventory sold subsequent to year-end for evidence of potential net realisable value concerns. • Considered the adequacy of provisions against inventory in light of the risks identified by the Group. • Tested costing methodologies by recasting the calculations of the standard cost of a sample of the inventory items to supporting invoices, and calculations for labour and overheads.

pwc

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Performance Highlights, the Executive Chairman's Review, the Chief Executive Officer's Review, the Review of Financial Performance and Operations, the Directors' Report, the Corporate Governance Statement, Shareholder Information and Corporate Directory, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

OUR OPINION ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 22 to 29 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001.*

RESPONSIBILITIES

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Pricewaterhouse Coopers

PricewaterhouseCoopers

P.J. Carney

Paddy Carney
Partner

Sydney
29 August 2018

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2018:

DISTRIBUTION OF EQUITY SECURITIES

Holding	Number
1 – 1,000	4,386
1,001 – 5,000	3,566
5,001 – 10,000	987
10,001 – 100,000	652
100,001 and over	160
	9,751

There were 340 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

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

Name	Number of shares	% of issued shares
Perpetual Limited	20,951,694	11.3%
Cooper Investors Pty Limited	14,593,664	7.9%
Karara Capital Limited	7,236,277	3.9%
Pendal Group Limited	5,291,860	2.9%
The Vanguard Group, Inc	3,955,276	2.1%
Netwealth Investments Limited	3,547,222	1.9%
Vanguard Investments Australia Limited	3,384,217	1.8%
Norges Bank Investment Management	2,950,341	1.6%
Australian Foundation Investment Company Limited	2,872,800	1.6%
Dimensional Fund Advisors Limited	2,872,256	1.6%
Aljo Pastoral Pty Limited *	2,707,841	1.5%
Jerang Pty Limited*	2,666,869	1.4%
Wilson Asset Management (International) Pty Limited	2,529,777	1.4%
Spheria Asset Management Pty Limited	2,525,474	1.4%
Mr Richard E Platts	2,350,000	1.3%
JL & KD Kimber	2,142,923	1.2%
Tribeca Investment Partners Pty Limited	2,010,767	1.1%
Realindex Investments Pty Limited	1,882,161	1.0%
R & R Apps Pty Limited	1,826,829	1.0%
PC Shearer	1,684,265	0.9%
	89,982,513	**48.8%**

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

SUBSTANTIAL HOLDERS

No shareholder holds more than 15% of the issued capital of the Company. Under the Company's constitution a shareholder limit of 15% is in place until 16 August 2021. In accordance with Rule 3.10 of the Bega Cheese Limited Constitution, at the 2015 Annual General Meeting the shareholders voted to increase the shareholder limit to 15% for a further five years from 17 August 2016, after which time it will be removed.

VOTING RIGHTS

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

CORPORATE DIRECTORY

ADVISORS

Auditor
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000

Solicitors
Addisons
Level 12, 60 Carrington Street
Sydney NSW 2000

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

Westpac Banking Corporation
360 Collins Street
Melbourne VIC 3000

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

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

DIRECTORS & COMPANY SECRETARIES

Directors
Barry Irvin
Executive Chairman

Richard Cross
Director

Peter Margin
Independent Director

Raelene Murphy
Independent Director

Terry O'Brien
Independent Director

Jeff Odgers
Director

Richard Parbery
Director

Max Roberts
Director

Company Secretaries
Brett Kelly
Colin Griffin

EXECUTIVE TEAM

Paul van Heerwaarden
Chief Executive Officer

Colin Griffin
Chief Financial Officer

Mark McDonald
Executive General Manager Dairy Ingredients

David McKinnon
Executive General Manager Human Resources

Adam McNamara
Executive General Manager Bega Foods

Hamish Reid
Executive General Manager Nutritionals

Antonietta Timms
Executive General Manager Operational Excellence

ENTITY INFORMATION

Bega Cheese Limited
Trading as "Bega Cheese"

ABN 81 008 358 503

The Annual Report includes the results of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the subsidiaries, joint venture and joint operation. Bega Cheese and its subsidiaries together are referred to in this financial report as the Bega Cheese Group (Group or consolidated entity).

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

Peanut Company of Australia Limited
Peanut Company of Australia (PCA) is a 100% subsidiary of Bega Cheese.

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

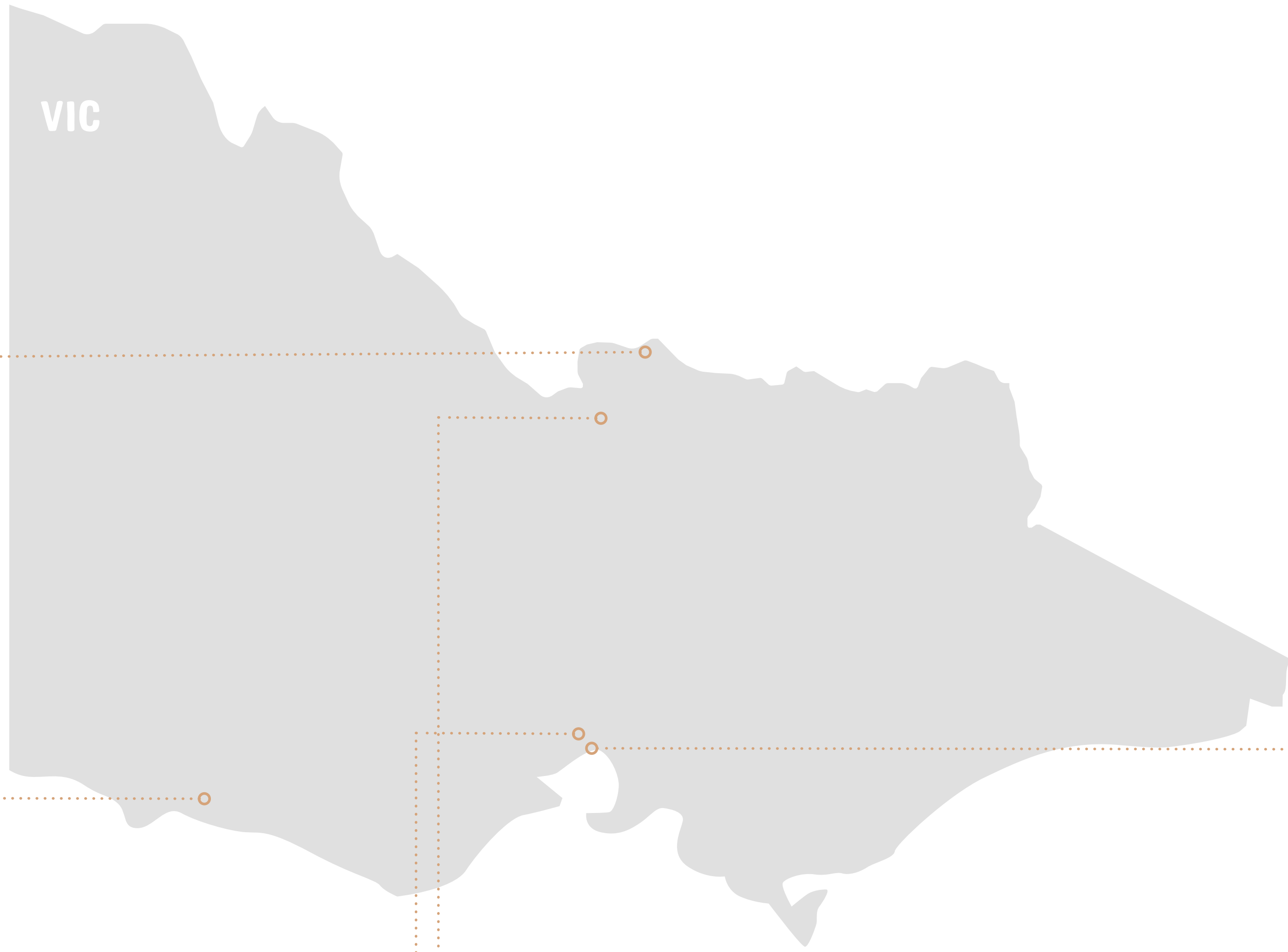
Bemore Partnership
Bemore Partnership (joint operation or Bemore) is the 50% joint operation of Bega Cheese.

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

Share Registry
Link Market Services Limited
Tower 4, 727 Collins Street
Docklands VIC 3008
T: 1300 554 474

Reporting Period
This Annual Report is for the year ended 30 June 2018 and is referred to as FY2018.

OUR SITES



KOROIT
41 Commercial Road
Koroit VIC 3282 Australia

TATURA
236 Hogan Street
Tatura VIC 3616 Australia

PORT MELBOURNE
1 Vegemite Way
Port Melbourne VIC 3207 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

COBURG
10-16 Allenby Street
Coburg VIC 3058 Australia

PORT MELBOURNE
664 Lorimer Street
Port Melbourne VIC 3207 Australia

TOLGA
12 Tostevin Street
Tolga QLD 4882 Australia

KINGAROY
133 Haly Street
Kingaroy QLD 4610 Australia

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

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