



SUSTAINABILITY
REPORT
2018





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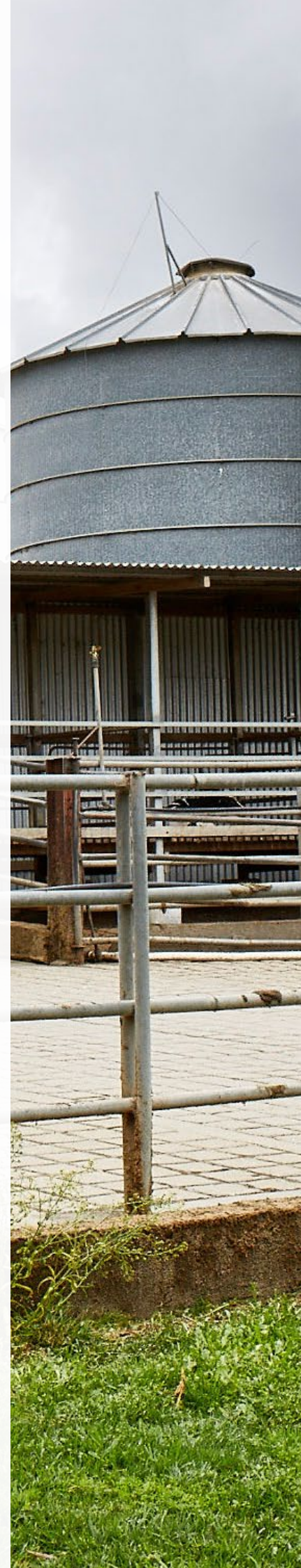
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Involving our stakeholders



ABOUT THIS REPORT

This report addresses our performance in relation to the material sustainability impacts of Bega Cheese Limited during the financial year 1 July 2017 to 30 June 2018 (FY2018).

In sections one and two of this report we outline our business, aspirations, values, and approach to sustainability. This includes how we identify and prioritise material issues and address governance and risk management. In the sections that follow, we detail our management approach and this year's performance for each of the significant material areas identified.

Unless otherwise stated, all references to a year are FY2018. Bega Cheese Limited is a publicly listed company on the Australian Securities Exchange (ASX Code: BGA). All references to the Bega Cheese Group or Bega Cheese refer to Bega Cheese Limited (ACN 008 358 503), its subsidiary Tatura Milk Industries Limited and acquisitions completed during the year, specifically the Mondelēz grocery business (Bega Foods) and the Peanut Company of Australia Limited (PCA).

The 25% joint venture Capitol Chilled Foods (Australia) Pty Ltd and the 50% joint venture Bemore Partnership with Blackmores Limited are included only in the financial information. The Koroit dairy manufacturing facility was acquired after the end of FY2018 and data on that site is included only where stated.

Unless otherwise stated, the information in this report covers all of our operating sites: Bega (Ridge Street and Lagoon Street), Strathmerton, Tatura, Coburg, Port Melbourne (Vegemite Way and Lorimer Street), Tolga and Kingaroy.

This report has been prepared in accordance with the GRI Standards (core option). A copy of the GRI Content Index with links to relevant sections of the document is provided on page 45.

We produce a range of reports to meet the evolving needs of our various stakeholders. Our 2018 Annual Report provides a summary of Bega Cheese Limited's operations and financial statements for FY2018 and is available at www.begacheese.com.au.

The approach we take to audit and assurance is outlined in our 2018 Annual Report. External assurance has not been sought regarding this report. Our approach to external assurance of sustainability reports is under development.

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

TELL US WHAT YOU THINK

As our business continues to evolve, we will keep improving our sustainability reporting and welcome your feedback on this report. Please address any questions, comments or suggestions to bega.admin@bega.com.au

Previous reports are also available at www.begacheese.com.au



FY2018 IN REVIEW

MESSAGE FROM THE CEO AND EXECUTIVE CHAIRMAN

We are pleased to present you with our fourth annual Sustainability Report. Sustainability is a key part of our business strategy and we take continued strides towards making a positive difference economically, socially and environmentally.

As a food manufacturer, our most material sustainability issues are food safety, water, environmental compliance, energy, animal welfare and sustainable sourcing. Our success relies on the trust and confidence of our customers, suppliers, shareholders, staff and the community. For this reason, we outline our material impacts on sustainability and how we are making a difference in addressing those impacts locally, and in contributing globally to the UN Sustainable Development Goals.

Bega Cheese Group continues to be successful while ensuring we build on our heritage and work closely with the dairy and peanut farmers who supply us, particularly in the areas of resource management and sustainability. We are a valued partner in the communities in which we operate, supporting many charities and organisations. Our continued focus on business improvement and growth opportunities creates further value for our suppliers, the local communities where we operate and our shareholders.

It has been an important year strategically as we have integrated the Mondelēz grocery business into the Bega Cheese Group following completion of the acquisition in July 2017. Now known as Bega Foods, this includes the iconic Vegemite brand and a range of other products such as peanut butter, salad dressings, dips, sauces and cheese.

Bega Foods also incorporates our branded international and food service business, and the Peanut Company of Australia (PCA) which we acquired in January 2018. Founded in 1924 and based in Queensland, PCA is the main supplier of peanuts for our peanut butter product range. The successful integration of Bega Foods into the Bega Cheese Group has further strengthened our overall business as we continue to see growth of our brands and products for domestic and export customers.

These acquisitions are consistent with Bega Cheese Group’s approach to our supply chain, reaffirming our strategy and belief that customers who purchase our products are increasingly focussed on provenance, improved traceability, quality assurance, and the sustainability of resource use and farming practices. This presents challenges and opportunities for sustainability including a focus on human health and nutrition, promoting healthy eating, and ensuring ingredients are sourced as ethically and sustainably as possible.







Significant effort has also gone into developing the organisational structure to support our growing and changing business. A range of initiatives in this report attest to how we are developing and supporting our people and strengthening our capability.

In a highly competitive milk acquisition market, Bega Cheese Group successfully increased direct milk supply by 97 million litres, driving further growth in our dairy ingredients business. On 17 August 2018 we were pleased to complete the acquisition of one of Murray Goulburn’s former dairy manufacturing facilities, located at Koroit in western Victoria, from Saputo Dairy Australia. The Koroit dairy manufacturing facility has significant capacity for butter, milk powders and nutritional powders, which complements our existing dairy infrastructure network, providing us with a strong position in one of Australia’s largest dairy regions.

We now operate nine manufacturing sites across three states, and have developed significant capacity and capability in our supply chain and operations. This year Bega Cheese Group produced almost 260,000 tonnes of dairy and food products, an increase of 9% on the previous year.

The strength, resilience and strategic focus of the Bega Cheese Group has once again been demonstrated in FY2018. We are pleased to report that Group revenue increased by 17% to \$1.44 billion. The normalised EBITDA of \$109.6 million was 55% up on the prior year and the net profit after tax of \$44.0 million was 45% up on the prior year.

OUR SUSTAINABILITY HIGHLIGHTS FY2018

 <p>36%</p> <p>IMPROVEMENT in total recordable injury frequency rate</p>	 <p>9%↓</p> <p>REDUCED potable water intensity across Bega Cheese Group</p>	 <p>91</p> <p>AUDITS consisting of 143 audit days were conducted across the group (excluding Koroit and PCA), with no serious food safety concerns being identified</p>	 <p>\$3.3</p> <p>MILLION committed over three years to support our suppliers to improve the long-term resource sustainability and efficiency of their businesses</p>	 <p>3YR</p> <p>ENERGY ROADMAP work has commenced on establishing improved performance within manufacturing operations</p>	 <p>30%</p> <p>DIVERSITY aiming to increase the representation of women in management positions to the overall proportion of women employed by the Group to 30%</p>
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MAKING A DIFFERENCE

This year we continued our focus on key environmental and social impacts, and have continued to improve our safety performance. Equally, it is important to maintain our financial strength, which strongly positions us for the future.

A combined 91 audits consisting of 143 audit days were conducted across the group (excluding Koroit and PCA), with no serious food safety concerns being identified.

Our safety performance continues to improve year on year, with ongoing investment in our people and our assets. In FY2018, the total recordable injury frequency rate (TRIFR) was reduced by 36%.

The past year saw a strong focus on continuing to embed a culture of safety within the organisation. We are committed to eliminating injuries as we strive to achieve a TRIFR of zero, yet we recognise that there is still some way to go.

In the area of sustainable sourcing we have committed \$3.3 million over three years to support our suppliers in improving the long-term resource sustainability and efficiency of their businesses. For example, in FY2018 Bega Cheese delivered initiatives that passed on improved dairy prices to our dairy farm suppliers and provided opportunities for project assistance. Announced in April, these initiatives applied to all Bega Cheese and Tatura Milk suppliers. A minimum price guarantee confirmed prices out to September 2018, providing stability for farm planning. The Bega Supply Premium added an immediate cash flow injection for suppliers who committed to Bega Cheese for two or three years. The Bega Better Farms program provided matching grants of up to \$5,000 for farm improvement works, as well as professional advice, education and training.

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

Environmental performance highlights include reducing potable water intensity by 9% across Bega Cheese Group, and commencing work on establishing a rolling three-year energy roadmap to improve energy performance within manufacturing operations.

While there is much more work to be done, we remain committed to achieving our sustainability targets. 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, customers and the community.



B. Irvin

Barry Irvin
Executive Chairman,
Bega Cheese Group



P. van Heerwaarden

Paul van Heerwaarden
CEO,
Bega Cheese Group

BEGA BETTER FARMS

Under our Bega Better Farms program dairy suppliers have had access to grant support for



ADVICE AND SERVICE SUPPORT

of up to \$1,000 per year



DEVELOPMENT AND TRAINING SCHOLARSHIPS

with funding available upon application



CAPITAL WORKS

of up to \$5,000, with priority given to projects to ensure regulatory compliance

ABOUT BEGA CHEESE



BEGA
CO - OPERATIVE
CREAMERY CO LIMITED

no parking

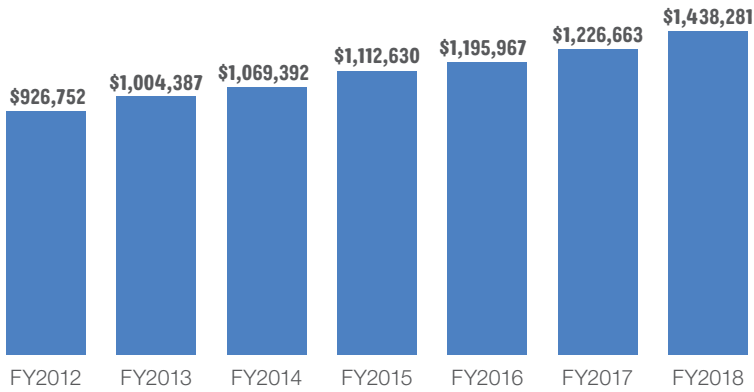
ABOUT BEGA CHEESE

Bega Cheese was founded as a collective of rural dairy farmers in the Bega Valley of New South Wales, keen to make a difference to their local industry and community.

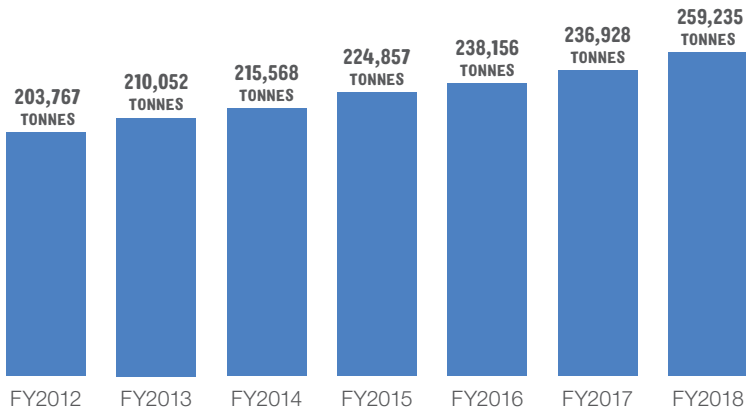
From these humble beginnings, Bega Cheese has grown into a \$1.4 billion corporate entity employing over 2,000 people. The business listed on the Australian Securities Exchange in 2011 (ASX Code: BGA) and currently has approximately 9,800 shareholders. Today we operate in nine sites across New South Wales, Victoria, and Queensland. We are supplied by over 420 dairy farms and more than 90 peanut farms. Our growth now extends beyond dairy products, along with a vision to become the Great Australian Food Company.

Key to this growth and transformation was the July 2017 acquisition of the Mondelez grocery business in Australia and New Zealand. In January 2018, we finalised the acquisition of the Peanut Company of Australia (PCA). Now known as Bega Foods, this branded food division encompasses iconic brands and products such as Vegemite and peanut butter, and manages our international branded and food service business.

YEAR-BY-YEAR REVENUE



YEAR-BY-YEAR PRODUCTION VOLUME



The move beyond dairy product categories builds on our heritage and culture, which is a cornerstone of Bega Cheese Group's success. Our growth has been supported by the farming families that supply us, the local communities where we operate, quality products and services, and personal engagement with our customers. These principles continue to be core to our success as we evolve into the Great Australian Food Company. Central to this is a strong focus on the needs of our customers, a record of superior shareholder returns, strong supplier relationships, a safe and engaged workforce, and long-term community support and engagement.

Following the purchase of the Mondelēz grocery business and PCA we are in the process of reviewing our vision and values. In FY2018, our values were as follows:

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

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

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

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

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

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



OUR HISTORY

- 1899** **Founded by rural dairy farmers in Bega, New South Wales**
In 1899, dairy farmers in the Bega Valley of New South Wales decided to improve their individual production and marketing activities and together established the Bega Co-operative Creamery Company. The original Bega Cheese factory at Lagoon Street in Bega opened in 1900 and still operates today producing cheddar, mozzarella cheese and whey powders.
- 1997** **Ridge Street site built in Bega, New South Wales**
In 1997 Bega Cheese built a cheese processing and packaging facility at Ridge Street, Bega, producing cheese products for both the Australian and International market.
- 2007** **Acquisition of Tatura Milk Industries, Victoria**
In April 2007 Bega Cheese acquired a 70% shareholding in Tatura Milk Industries Limited (Tatura Milk), located in the township of Tatura in Northern Victoria. The final 30% was acquired in 2011. This broadened the company's product range with the addition of cream cheese, milk powders and nutritionals.
- 2008** **Purchase of De Cicco Industries, Coburg, Victoria**
In October 2008 Bega Cheese purchased the assets and operations of De Cicco Industries in the Melbourne suburb of Coburg. This site was a significant addition to our bulk cheese manufacturing capability.
- 2009** **Acquisition of Kraft Foods' manufacturing facility in Strathmerton, Victoria**
In March 2009, Bega Cheese acquired the cheese manufacturing facility of Kraft Foods at Strathmerton in Victoria. The asset was one of the largest processed cheese facilities in Australasia and Bega Cheese further invested in the infrastructure adding natural cheese cutting capability to the plant.
- 2011** **Australian Securities Exchange listing**
An important milestone for Bega Cheese occurred in August 2011 when the business listed on the Australian Securities Exchange (ASX). Following the successful listing, Bega Cheese acquired the final 30% of Tatura Milk, making it a wholly owned subsidiary of Bega Cheese.
- 2014** **Nutritional canning and blending plant commissioned at Derrimut, Victoria**
In March 2014 a life stage nutritional canning and blending plant was commissioned in Derrimut, Victoria. This new facility added to our capabilities which included the supply of retail-ready infant formula and milk powders to Australian and international customers.
- 2017** **Bega Foods: Acquisition of Mondelēz Grocery Business, Port Melbourne, Victoria**
In January 2017 the Bega Cheese Group announced the acquisition of Mondelēz International's Australian and New Zealand grocery and cheese business (Mondelēz grocery business) now known as Bega Foods. The acquisition was completed in July 2017. This diversified our product portfolio with the iconic Vegemite brand and a range of other products including peanut butter, salad dressings, dips, sauces and cheese. It also included the manufacturing site in Port Melbourne, Victoria.

OUR HISTORY (CONTINUED)

2017

Sale of infant nutritional assets to Mead Johnson Nutrition Asia Pacific (now part of Reckitt Benckiser Group)

In late February 2017 Bega Cheese Group formed an important long-term strategic alliance with the sale of infant nutritional assets to Mead Johnson Nutrition Asia Pacific. This involved the sale of our Derrimut nutritional formula finishing plant in Melbourne and one of our milk powder spray dryers at Tatura to our nutritional formula customer, Mead Johnson (now acquired by Reckitt Benckiser Group). The sale was accompanied by a 10-year service agreement with Mead Johnson.

2018

Acquisition of Peanut Company of Australia, Queensland

In January 2018 we finalised the acquisition of the Peanut Company of Australia (PCA) business. Founded in 1924 and based in Queensland, PCA is the main supplier of peanuts for our peanut butter product range. PCA has plants at Kingaroy and Tolga in Queensland and is involved with all aspects of the peanut processing chain from developing new peanut crop varieties to drying and shelling, grading, blanching, sorting, roasting and granulating the final product.

Acquisition of Saputo Dairy Australia's dairy processing facility, Koroit, Victoria

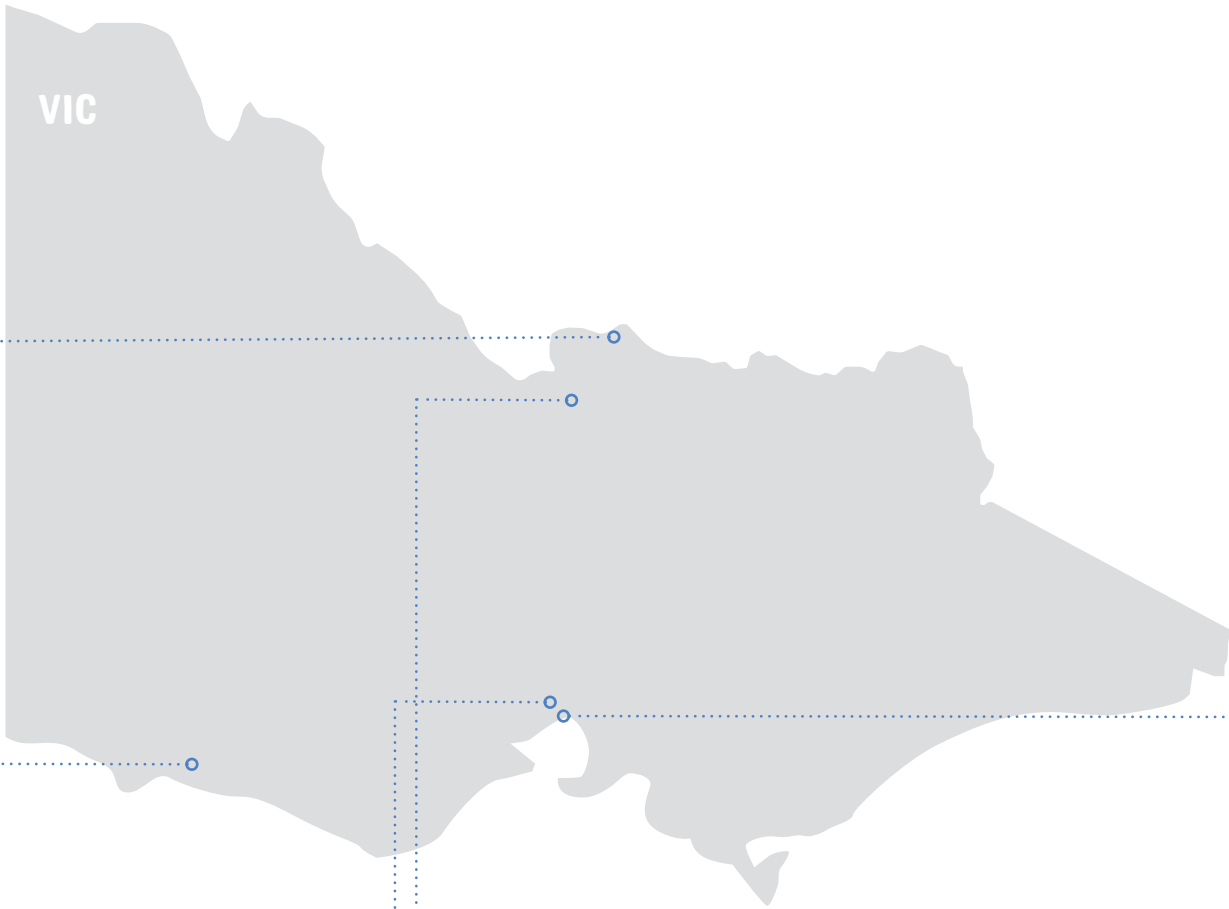
In August 2018, Bega Cheese Group announced the acquisition of Saputo Dairy Australia's (SDA) Koroit dairy processing facility located at Koroit in Western Victoria. This facility has significant capacity in butter, milk powders and nutritionals, complementing our existing dairy infrastructure and providing us with a strong position in one of Australia's largest dairy regions.

LOOKING TO THE FUTURE – AS THE GREAT AUSTRALIAN FOOD COMPANY.

The acquisitions of the Mondelēz grocery business, PCA and the Koroit dairy manufacturing facility provide us with an expanded range of products and capabilities that will continue to support growth in both domestic and international markets. Along with our core dairy and nutritional businesses, this expanded business profile provides the foundation for us to achieve our vision of becoming the Great Australian Food Company.

Today, we have significant capacity and capability across dairy ingredients, nutritionals, retail dairy products and spreads including Vegemite and peanut butter. We continue to focus on our 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 products from dairy and agriculture regions in Australia.

OUR SITES



KOROIT
41 Commercial Road
Koroit VIC 3282



TATURA
236 Hogan Street
Tatura VIC 3616



PORT MELBOURNE
1 Vegemite Way
Port Melbourne VIC 3207



STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641



COBURG
10-16 Allenby Street
Coburg VIC 3058



PORT MELBOURNE
664 Lorimer Street
Port Melbourne VIC 3207

OUR SITES



TOLGA
12 Tostevin Street
Tolga QLD 4882



KINGAROY
133 Haly Street
Kingaroy QLD 4610



BEGA CHEESE MANUFACTURE
11-13 Lagoon Street
Bega NSW 2550



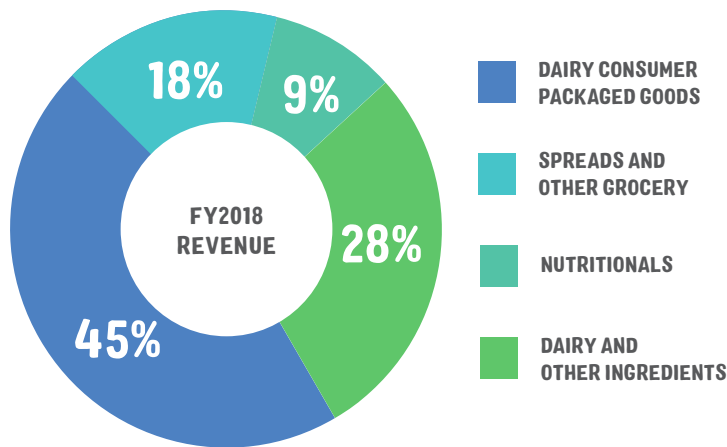
**BEGA HEAD OFFICE AND
PROCESSING AND PACKAGING PLANT**
23-45 Ridge Street
Bega NSW 2550

MARKETS

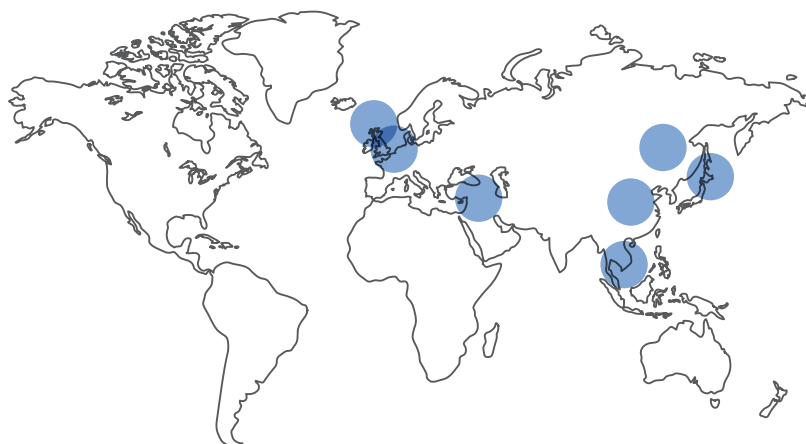
In FY2018 Bega Cheese Group revenue increased by 17% on the previous financial year, with a revenue of \$211 million.

The acquisition of the Mondelēz grocery business, establishing the new Bega Foods business, contributed the majority of this revenue growth. In the Australian market, the Bega brand is a household name across dairy and grocery categories, now including peanut butter market leadership. We have the trusted brand Vegemite as well as Zoosh dressings and dips. Our domestic customers include Aldi, Coles, Woolworths, and Metcash plus distribution across food service and quick service restaurants. Business-to-business customers include Fonterra, Kraft, Mondelēz, Bellamy's and Blackmores.

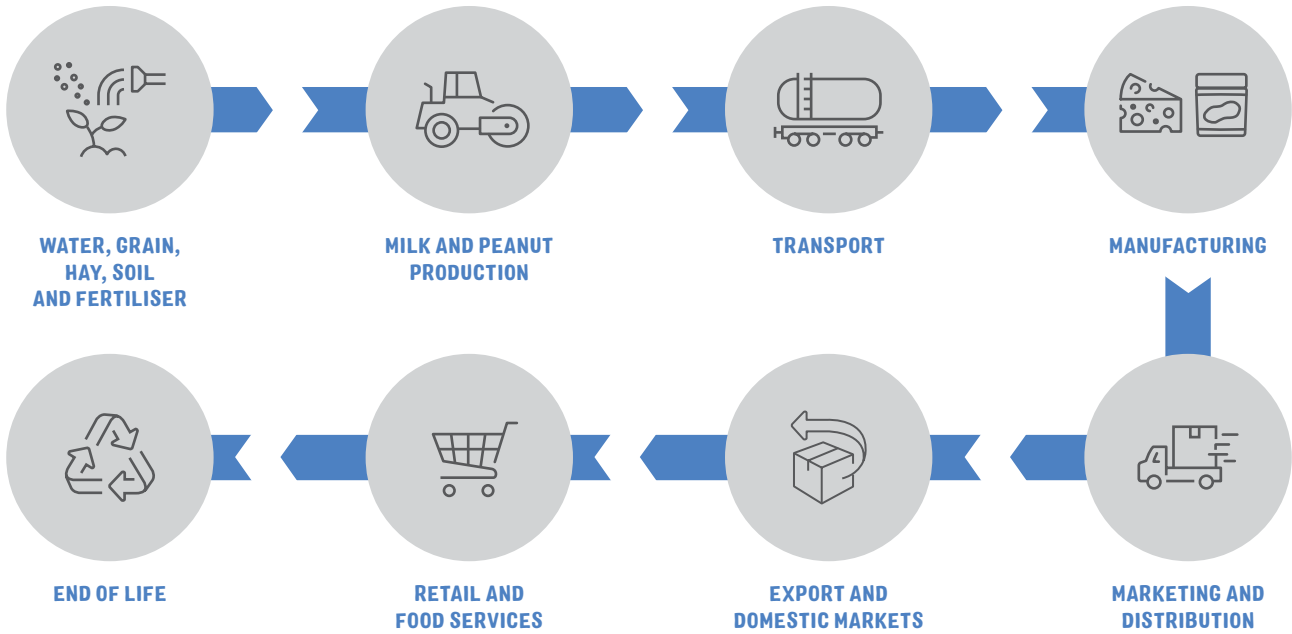
Internationally, our brands and products are gaining popularity worldwide, with growing exports. Export sales totalled \$425 million in FY2018 and comprise 30% of total sales. We are committed to expanding our range of dairy ingredients, nutritional and core food products around the world. Our broad international customer base includes manufacturers, retailers, distributors and agents in markets including South East Asia, China, Japan, Korea, United Kingdom, France and the Middle East. We also have an increasing number of nutritional, food service and ingredient customers in China.



INTERNATIONAL CUSTOMER BASE



OUR VALUE CHAIN: HOW BEGA CHEESE CREATES VALUE



Bega Better Farms program and Bega Supply Premiums to support farmers

<p>420+ DAIRY SUPPLIERS</p>	<p>93 PEANUT SUPPLIERS</p>	<p>750 MILLION LITRES OF MILK COLLECTED</p>	<p>22 TONNES PEANUTS RECEIVED</p>
<p>OVER \$222K CONTRIBUTED TO BEGA AND TATURA COMMUNITY GROUPS</p>	<p>2,000+ EMPLOYEES</p>	<p>28% OF WATER RECYCLED OR RE-USED</p>	<p>ALMOST \$260K TONNES OF DAIRY AND FOOD PRODUCTS PRODUCED</p>
<p>1,679+ MILLION MEGAJOULES OF ENERGY CONSUMED</p>	<p>\$425M OF EXPORTS IN FY2018 30% OF TOTAL SALES</p>	<p>↓ REDUCED OR OPTIMISED PACKAGING MATERIAL EFFICIENCY IN 50% OF OUR PACKAGING VOLUME</p>	<p>REVIEWED AT LEAST 50% OF PACKAGING WITH REFERENCE TO SUSTAINABLE PACKAGING GUIDELINES</p>

OUR APPROACH TO SUSTAINABILITY

SUSTAINABILITY STRATEGY

Sustainability is one of six major pillars in our strategic plan 2017-21. Our sustainability strategy focusses on the areas of governance, environmental compliance, community, resource efficiency, climate change, product stewardship and sustainable sourcing.

Our approach is informed by several global and national initiatives, one of which is the United Nations Sustainable Development Goals

(UN SDGs), which has a global agenda to promote prosperity and environmental protection. The goals recognise that strategies for economic growth and ending poverty must also address social and environmental needs. We have aligned the scope of our material issues to the goals where we have the greatest impact or contribution.

BEGA CHEESE TARGETS AND PERFORMANCE

ISSUE	ONGOING TARGET	FY 2018 PERFORMANCE	PROGRESS
% of women in management positions	32%	26%	On track
Product recalls	0	0	On track
ISSUE	TARGET FY 2018	FY 2018 PERFORMANCE	PROGRESS
Workplace injuries	<10 TRIFR	6.8 TRIFR	On track
Risk completion	65%	74%	On track
Sustainable sourcing	Develop a new sustainability program for dairy suppliers		On track
Ethical sourcing	Develop an ethical sourcing framework		On track
Energy intensity	6.48 ¹ GJ/t	6.19 GJ/t	On track
	Develop energy road maps for each operating site		On track
Greenhouse gas intensity	0.53 tCO ₂ e/t	0.57 tCO ₂ e/t	More to do
	Embed climate change into risk management framework		More to do
Water intensity	8.48 kL/t	7.69 kL/t	On track
Waste diversion from landfill	68%	62%	More to do
Waste intensity	7.61 kg/t	7.67 kg/t	More to do

¹ This was revised from 5.7 GJ/t due to recent acquisitions.

We understand the global context for sustainable development of the dairy industry and the scope of issues for the sector. The United Nations global sustainable development agenda, set to 2030, is formally supported by the dairy industry globally. As a producer of dairy products we support and act on those commitments. The International Dairy Federation and Food and Agriculture Organisation of the United Nations led the development of the Dairy Declaration of Rotterdam, which reflects the dairy sector's commitment to sustainable development globally. The Declaration embraces the UN SDGs as its overarching framework and commits the industry to measure and report its sustainability outcomes.

We are also active contributors to the Australian Dairy Industry Sustainability Framework and we reflect national priorities for the industry in our own approach in determining material issues and developing targets. Bega Cheese is an active participant and member of various industry sustainability bodies including the Dairy Manufacturers Sustainability Council (DMSC), the Australian Packaging Covenant Organisation (APCO) and the Australian Food and Grocery Council (AFGC).

Bega Cheese is a member of many other industry associations, including: the Australian Dairy Industry Council; the Australian Dairy Products Federation Incorporated; the Australian Farm Institute; the Dairy Industry Association Australia (NSW and Victoria); the Dairy Research Foundation; the Infant Nutritional Council Board; the Gardiner Foundation; the NSW Farmers Association; and the NSW Irrigators' Council.

We monitor global environment, social and governance (ESG) indices and continually seek to improve our measures against them. We have been rated by Morgan Stanley Capital International (MSCI), achieving a BBB rating in July 2018.

Our aim is to focus on establishing targets, policies and programs linked to our most material sustainability issues, which are:

- food safety
- water and energy intensity
- environmental compliance
- animal welfare
- sustainable and ethical sourcing.

In addition to the above issues, we will progressively develop positions on issues of emerging significance such as packaging, human nutrition and food waste as well as responses to new recommendations and regulations, such as the Taskforce on Climate Related Financial Disclosure (TCFD) and Modern Slavery Bills.

OUR MOST MATERIAL SUSTAINABILITY ISSUES

<p>FOOD SAFETY</p> 	<p>WATER AND ENERGY INTENSITY</p> 	<p>ENVIRONMENTAL COMPLIANCE</p> 	<p>ANIMAL WELFARE</p> 	<p>SUSTAINABLE AND ETHICAL SOURCING</p> 
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GOVERNANCE AND RISK MANAGEMENT

Managing sustainability is an essential part of our Code of Conduct and our Values. Our Code of Conduct outlines the responsibilities that employees, contractors, suppliers, consultants and directors have to the company. This includes high standards of business ethics, fair employment, safety, fair business practices, stakeholder engagement and environmental management. Contractor compliance with relevant aspects of the Code of Conduct is managed as part of their engagement, and maintained through a web-based training and compliance tool which is completed annually.

Employees complete a Code of Conduct Declaration upon employment, and complete refresher training every 24 months to ensure awareness of any changes. The Code of Conduct also outlines the company's grievance procedures and provides an independent hotline to report any breaches. More information on the Code of Conduct can be found at our website.

Our Board consists of eight directors overseeing the sustainability activities of Bega Cheese, while Board sub-committees monitor performance and provide advice and assistance. Management provides environmental compliance reports quarterly to the Audit and Risk Committee.

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



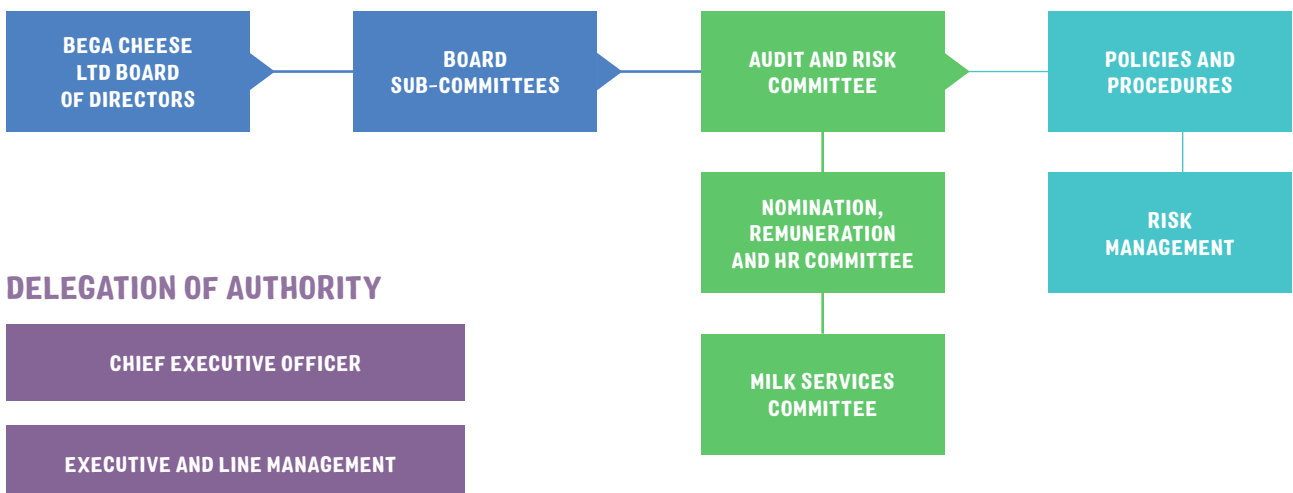
From left to right: Richard Cross, Richard Parbery, Peter Margin, Raelene Murphy, Max Roberts, Barry Irvin, Jeff Odgers, Terry O'Brien

Bega Cheese Directors occupy positions on the governance bodies of a number of key industry associations. Barry Irvin, Executive Chairman, was a Director of the Gardiner Foundation until October 2017. Jeff Odgers, Director, was also a Director of Dairy Australia and became their Chairman in November 2017. Richard Cross, Director, is also currently the Chair of Murray Dairy.

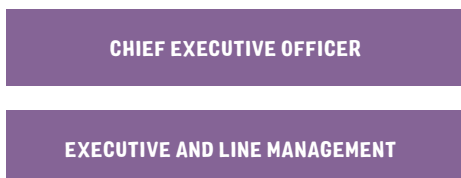
Some Executive members also occupy positions on industry associations. David McKinnon, Executive General Manager Human Resources, is a member of the Federal Government Department of Industry and Training Food, Beverage and Pharmaceuticals Industry Reference Committee. Hamish Reid, Executive General Manager Nutritionals, is Chair of the Board of the Infant Nutrition Council of Australia and New Zealand, of which Tatura Milk Industries is an associate member.

Further details on Bega Cheese Directors and their other current directorships are available on pages 16-17 of our 2018 Annual Report.

BEGA CHEESE GOVERNANCE



DELEGATION OF AUTHORITY



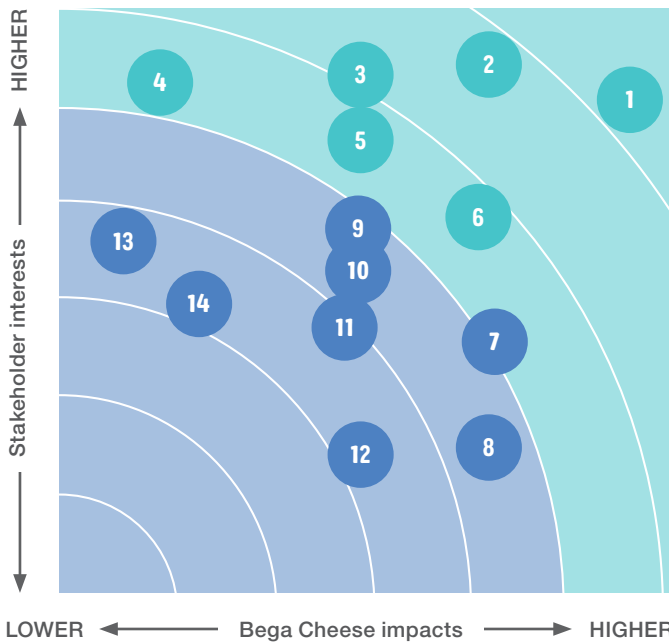
OUR MATERIAL ISSUES

Bega Cheese conducted a materiality assessment in FY2017 to determine our key sustainability issues. This informs the priorities set in our 2021 strategic plan, as well as the content of our sustainability report.

We used a four-phase assessment process: identify, prioritise, validate and review. This is detailed in our FY2017 sustainability report, available on our website. We continue to report on the material issues arising from that assessment.

The issues are prioritised in the materiality matrix below. The scope of the issues, their boundaries and alignment with UN SDGs is presented in the table that follows. We did not conduct a materiality assessment or dedicated stakeholder engagement for the development of the FY2018 sustainability report.

MATERIALITY MATRIX



- 1 **FOOD SAFETY**
- 2 **WATER**
- 3 **ENVIRONMENTAL COMPLIANCE**
- 4 **ENERGY**
- 5 **ANIMAL WELFARE**
- 6 **SUSTAINABLE SOURCING**
- 7 **SAFETY**
- 8 **FOOD AND NUTRITION**
- 9 **GOVERNANCE**
- 10 **COMMUNITY CONTRIBUTION**
- 11 **GREENHOUSE GAS EMISSIONS**
- 12 **WASTE AND PACKAGING**
- 13 **ETHICAL SOURCING**
- 14 **PEOPLE CAPABILITY**

This informs the priorities set in our 2021 strategic plan, as well as the content of our sustainability report.

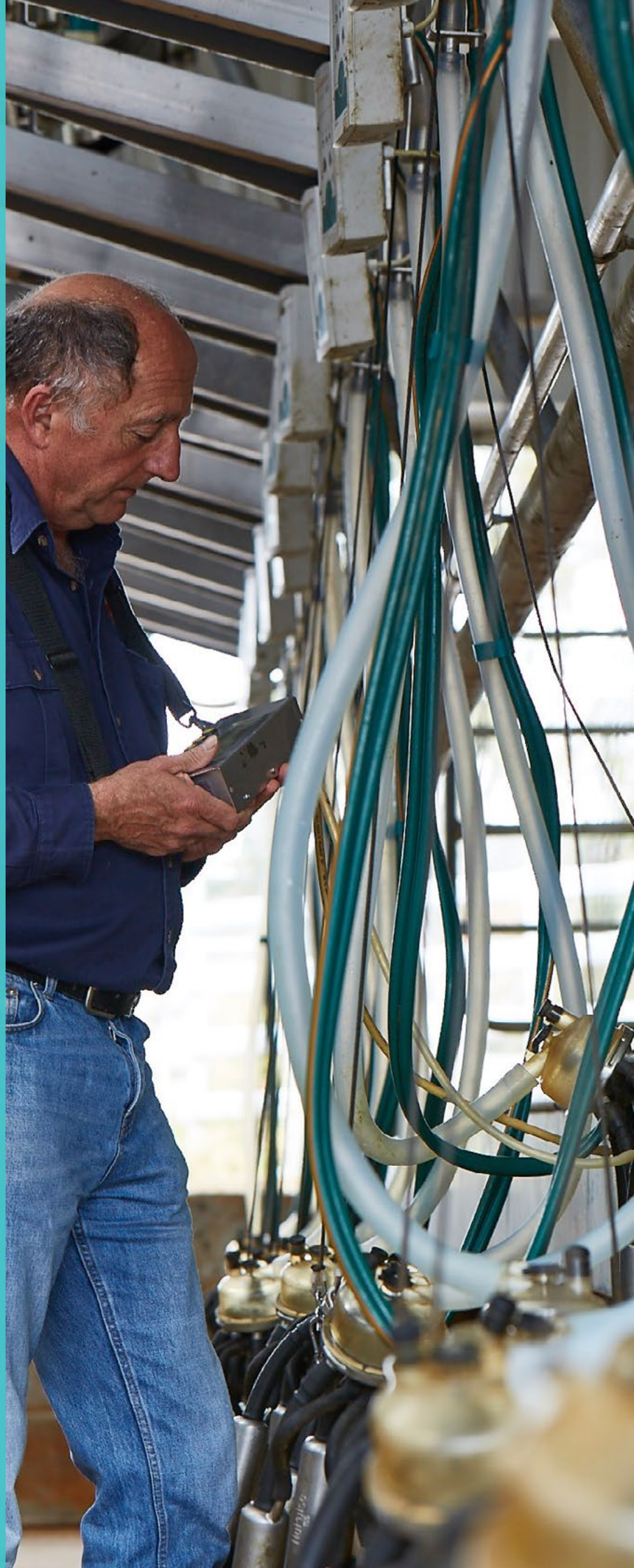
OUR MATERIAL ISSUES

MATERIALITY INDEX

MATERIAL ISSUE	SCOPE	UN SDG*– OUR IMPACTS, OUR CONTRIBUTIONS
Food safety	All aspects of food safety including policy, compliance, complaints, feedback and recalls	
Water	Approach to water security and water management including consumption, intensity, recycling and effluent management in manufacturing but also farm water security	
Sustainable sourcing	Local spending on suppliers, support to farmers for practice improvement, access to capital and environmental performance Sustainable sourcing of non-dairy inputs	 
Environmental compliance	Compliance with environmental licences, local complaints and responses	
Energy	Energy security and costs, energy consumption and intensity and use of renewable energy	 
Animal Welfare	Policy, performance and transparency at farm level on performance against animal welfare standards	
Food and nutrition	Ingredient reviews, position on human health and nutrition opportunities	
Safety	Health and safety of workers at manufacturing sites, on-farm safety practices and chain of compliance for transport related activities	
Greenhouse Gas Emissions	Scope 1 and 2 greenhouse gas emissions from manufacturing and approach to Scope 3 emissions	
Governance	Internal mechanisms for identifying, managing and responding to sustainability. Board membership and responsibility for sustainability risks	
Community contribution	Contribution to local communities including local employment, local sourcing where practical, tax transparency and charitable giving	
Waste and packaging	Waste generation, types of packaging, recycled content and rates of recycling	
Ethical sourcing	Performance of suppliers in areas such as fair work practices on farm and human rights such as anti-discrimination and child or forced labour	
People capability	Training, education and development of staff	

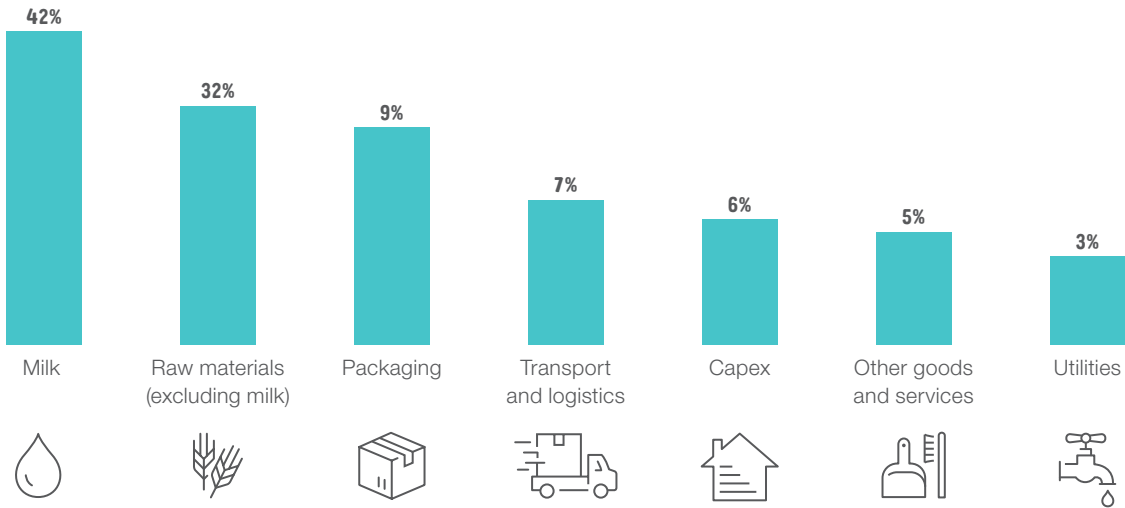
* United Nations Sustainable Development Goal

**RESPONSIBLE
SOURCING
AND
COMMUNITY
DEVELOPMENT**



LOOKING AFTER OUR SUPPLY CHAIN

BEGA CHEESE SUPPLY CHAIN EXPENDITURE



Our customers are increasingly concerned with provenance, improved traceability, quality assurance, and the sustainability of resource use and farming practice. Throughout all product and ingredient lifecycles we partner with suppliers to ensure an ongoing focus on the ethical and sustainable sourcing of ingredients, sound labour practices and efficient manufacturing processes.

Our approach relies on a commitment to building trust with our suppliers and customers. We support Australian primary producers and local communities who are experiencing lean production seasons, affected by challenging and unfavourable environmental conditions.

We ethically source and manage suppliers through ongoing partnerships, supporting the Australian agricultural and food industry and their local regions. This in turn provides stable employment and career opportunities, helps minimise environmental impacts, and nurtures strong local community networks.

With many core ingredients being sourced locally, we maintain a strong focus on ensuring the sustainability of Bega Cheese and its supply partners. Our supply chain team, in partnership with our quality team, aims to source from local suppliers by establishing long-term arrangements that ensure ingredients meet expected quality standards.

THERE ARE A NUMBER OF KEY OBJECTIVES IN MANAGING OUR SUPPLY CHAIN, ALIGNED TO OUR BROADER BUSINESS OBJECTIVES. THESE INCLUDE:



INCREASING AUSTRALIAN SOURCED CONTENT
within our suppliers' product range



SUPPORTING PRIMARY PRODUCERS
through developing sustainable and fair supply arrangements underpinned by balanced commercial terms



REDUCING LANDFILL
through diversion to recycling



REDUCING WATER USAGE
through investment in processing practices and technology



ENHANCING SOURCING AND CONTRACTING
to ensure transparent and consistent processes

In FY2018, our Group Procurement Charter was established and implemented across the Bega Cheese Group. The charter outlines how internal stakeholders and suppliers are managed in order to achieve mutually beneficial, productive and sustainable relationships. Our strategy for fostering sustainable relationships relies on the following principles.

- **FAIR:** we seek to ensure a level playing field is maintained and that all suppliers have a fair opportunity to secure business.
- **ETHICAL:** we adhere with the Bega Cheese Group Code of Conduct, and will adhere to the Ethical Sourcing Policy which is under development. We will ensure we abide by our contractual obligations, including payment terms.
- **TRANSPARENT:** we will clearly communicate business requirements during sourcing, contracting, and supplier management activities.
- **RESPONSIVE:** we are open to new ideas, new suppliers and supplier feedback.

The Charter also highlights that our suppliers are expected to consistently meet the following expectations.

- **COMPETITIVE:** offer the most competitive pricing for goods and services commensurate with our market position.
- **RELIABLE:** ensure that the goods and services they provide meet legal and regulatory requirements, our specifications and contract terms, and relevant Australian and international standards. This also applies to a supplier's own suppliers and contractors.
- **ETHICAL:** strictly abide by relevant Bega Cheese Group policies including safety policies and Chain of Responsibility requirements, and our Code of Conduct (including Fair Business Practices and Corporate and Social Responsibility requirements). This expectation also applies to the suppliers and contractors belonging to our suppliers.
- **DELIVERING ONGOING VALUE:** implement continuous improvement initiatives that reduce the total cost of supply, increase the benefits, and provide Bega Cheese Group with regular access to innovation that can deliver competitive advantage.
- **COMPLIANT:** maintain all relevant registrations, certifications, licences and codes of practice.

Our Group Procurement team has recently reviewed the ISO 20400:17 Sustainable Procurement Guidance². We aim to integrate and align both our Procurement Charter and internal quality policies with its key principles.

We are committed to working with our supply chain partners on ongoing joint innovation initiatives that consider the changing market conditions and strive for continual improvement. We have a fair, robust and transparent sourcing process. Our company-wide standardised sourcing and evaluation process includes a range of cross-functional stakeholders across the business. Assessment criteria is communicated to all suppliers at the commencement of the procurement process. Our assessment criteria and evaluation takes into account economic, social and environmental considerations, explained as follows.

- **ECONOMIC:** previous or current experience, whole-of-life costing of product, cost of changing current supplier, productivity or service capacity, innovation.
- **SOCIAL:** accreditation by independent certification organisation to a standard, community impacts, social participation.
- **ENVIRONMENTAL:** impact of materials used and processes of production, impact of transport and impact of product life cycle, including disposal.

We have incorporated a number of additional considerations into assessing suppliers. These include supplier reputation, technical specifications, supply chain reach, current certifications and qualifications, plus their commitment to continual improvement and the environment.

Our key sustainability criteria are currently under review with our quality, safety and product development teams. We aim to ensure we have an integrated approach to sourcing sustainable, quality products that meet customer and community expectations. We plan to incorporate an external supplier onboarding platform that is relevant to the industries within which we trade. Proposals will be obtained from potential providers of this platform, with the goal of completing system selection and implementation in the second quarter of FY2019.

With the acquisition of Peanut Company of Australia (PCA) Bega Cheese Group is now committed to the primary producers of legumes in Australia. We seek to partner with growers and aim to increase production to supply a higher percentage of Australian peanuts in our peanut butter products. For example, currently our Bega 100% Nuts Peanut Butter range is made from Australian-only peanuts. More information on PCA and our approach to the sustainable sourcing of legumes will be included in our FY2019 Sustainability Report.

Bega Cheese acknowledges the environmental and social impacts associated with the production and supply of palm products. We use palm oil or palm oil derivatives in a variety of products including our spreads such as peanut butter. We support the Roundtable on Sustainable Palm Oil (RSPO) which was established to promote the growth and use of sustainable palm oil products through credible global standards. Our goal is to source 100% palm products for use in Bega Cheese products from RSPO certified sources. We currently estimate that more than 80% of the palm oil we use is RSPO certified. We will be developing a more detailed policy position on palm products in the coming year and will monitor our performance against this in FY2019. We look forward to sharing the results of this work in future reports.

Over the past year we commenced implementation of our new ERP system 'M3' to provide improved inventory management, transport efficiency and resource planning. This will enable a live view of our entire supply chain and allow for optimisation of all supplier channels, resulting in further decreases in energy consumption and waste.

We have also completed a review of our transport and warehousing network, with the aim of optimising current arrangements. We plan to implement a Transport Management System during FY2019 which will increase the management efficiency of our road transport utilisation.

² ISO 20400:2017 provides guidance to organisations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

SUSTAINABLE SOURCING

Our sustainable sourcing practices allow Bega Cheese to positively influence the businesses from which we source products and services.

This year we collected 750 million litres of milk from our dairy farmers, a 15% increase on FY2017. We also committed \$3.3 million over three years to support our suppliers to improve the long-term resource sustainability and efficiency of their businesses.

During volatile market conditions for our dairy suppliers, in FY2018 Bega Cheese implemented the following three initiatives that provided milk price stability, improved cash flow and gave project assistance to farm suppliers. Announced in April 2018, these initiatives applied to all Bega Cheese and Tatura Milk suppliers:

- a minimum price guarantee confirmed prices out to September 2018, providing stability for farm planning
- the Bega Supply Premium added an immediate cash flow injection for suppliers who committed to Bega Cheese for two or three years
- the Bega Better Farms program provided matching grants of up to \$5,000 for farm improvement works, as well as professional advice, education and training.

The program offers a range of support for all farms supplying Bega Cheese, with the aim to help sustain strong rural communities.

Areas of highest priority under the Bega Better Farms program include animal health and welfare, effluent management, chemical management, waste management, health and safety, people management, and ongoing training and development. These areas form part of our quality assurance or are required for meeting legislative requirements related to on farm operations. Other areas under the program are recommended practice and include an on farm focus on energy management and greenhouse gas emissions, as well as irrigation and water management.

With on farm energy management and greenhouse gas emissions, increasing energy costs are placing significant pressure on dairy businesses. Suppliers that meet all compliance areas are able to utilise grant funds to improve farm energy efficiency.

On farm irrigation and water management involves a focus on water security and the efficient use of water resources - a key area of risk for all farmers and food manufacturers. We continue to work with irrigation industry groups and government agencies to improve water security for irrigators while reducing environmental water stress. Suppliers that meet all compliance areas are able to utilise grant funds to improve their stewardship of water resources.

Under the Bega Better Farms program, dairy suppliers will also have access to grant support for:

- advice and service support of up to \$1,000 per year
- development and training scholarships, with limited funding available upon application
- capital works of up to \$5,000—with priority given to projects to ensure regulatory compliance.

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

Our successful partnership with the New South Wales South East Local Land Service continued in FY2018. Since 2005 this partnership has resulted in the implementation of environmental on ground works, resulting in positive landscape change in the Bega region. A cumulative summary of the achievements to FY2018 is presented in the table below.

53 EFFLUENT SYSTEMS UPGRADED	73 WETLANDS PROTECTED	261 KILOMETRES OF FENCING INSTALLED
405 HECTARES OF STREAMS PROTECTED	274 HECTARES OF RIPARIAN AREA REVEGETATED	120 SHADE AND SHELTERBELTS CREATED

The Bega Better Farms program is implemented by our Milk Supply teams under the guidance of the company's Milk Services Committee. Supplier performance is managed through our Milk Supply Compliance Checklist and a Sustainability Assessment. Farms participating in the Bega Better Farms program are required to complete a Sustainability Assessment with a review every two years.

PLANS FOR FY2019



Invest in water programs to aid farmers in buying water

Develop a more detailed position on palm oil and report on our progress in our next report

Increase Australian peanut content in our peanut butter products

Source 100% palm oil and palm oil derivatives for our products

ANIMAL WELFARE

As a producer of dairy products, Bega Cheese has a significant interest in animal health, welfare and husbandry practices. Our business depends on the health and welfare of Australia's dairy herd. We also recognise that animal health and welfare is of great interest to our stakeholders, particularly our large customers and consumers.

We support the Australian Dairy Industry Sustainability Framework, which aims for 100% compliance with legislated Australian Animal Welfare Standards and 100% uptake of relevant recommended practices by 2020. We also support the National Dairy Industry Animal Welfare Strategy and require all of our suppliers to comply with the Australian Animal Welfare Standards and Guidelines for Cattle, and the Australian Animal Welfare Standards and Guidelines for Land Transport for Cattle. This is a condition we place on our suppliers, as detailed in our Supplier Handbook.

Animal health and welfare is a key compliance topic under the new Bega Better Farms program. Using the sustainability assessment process implemented under the program, we assess where farmers are at with their animal welfare practices and this helps us to implement training programs where required.

Through this program, our suppliers can access funds for professional advice and training, as well as capital works funds for infrastructure improvements, such as upgrades to calf sheds or the provision of shade and shelter in paddocks.

SUPPORTING REGIONAL ECONOMIES

We contribute to regional communities in many ways including through direct employment, support for regional charities, payments to our suppliers, tax payments to government, and by providing dividends to our shareholders. Bega Cheese is a significant employer in regional Australian centres including Bega in New South Wales, Strathmerton and Tatura in northern Victoria, and Kingaroy and Tolga in Queensland where the Peanut Company of Australia is the country's largest producer of peanuts.

We employ over 2,000 staff across the company and directly support the livelihoods of our suppliers through the sourcing of raw materials. Since acquiring the Peanut Company of Australia, we also aim to progress our goal of sourcing an increased percentage of our peanuts from Australian peanut growers.

In FY2018, we paid \$25.8 million in tax in the ordinary course of business. We manage our Australian tax obligations in line with the expectations of the Australian Tax Office (ATO) and have a strong history of paying fully franked dividends to shareholders. Our results this year supported our full-year dividend of 11 cents per share. Under Australian taxation law, Bega Cheese Group has two taxable entities, being Bega Cheese Limited and Tatura Milk Industries Limited.

COMMUNITY PARTNERSHIPS

Bega Cheese plays an important role in supporting local communities and helping drive economic development. Through our charitable events and sponsorships, we place priority on supporting the communities of our farmer suppliers and our staff. We also endeavour to direct much of our corporate support to regional areas, often supporting charities that assist people in difficult circumstances. We support a wide range of community projects across the areas of education, sport, community service, the arts and health.

Our local sponsorship prioritises opportunities based on projects which have the widest community benefit, are based in our local communities and in support of local organisations, and which have a lasting community benefit.

In FY2018, we contributed \$220,000 in sponsorships across our Bega Cheese and Tatura Milk Industries businesses.

CHARITABLE EVENTS

In addition to direct sponsorships, we support our communities through charitable events.

The Tatura 200 Charity Bike Ride & Walk is one of our long-standing events. Known as the Tat 200, it was an initiative of the original Tatura Milk Industries Board, aimed at extending community support beyond its traditional stakeholders. Since the event's inception in 2008, the past ten years has seen the Tatura 200 Charity Bike Ride & Walk raise over \$860,000 for local charities, organisations and community groups in the Goulburn Valley. More information on the event and fund recipients can be found at www.tatura200.com.au

We also run an annual corporate event that has raised approximately \$930,000 over the past ten years. Bega Cheese chooses local charities in the Bega Valley to raise money for, and invites corporate clients, customers and suppliers from around the world to visit and tour the region. This is a great opportunity to showcase the Bega Valley to visiting guests, who then attend a charity auction held in aid of the causes we support each year.

As well as the support from corporate clients, Bega Cheese also makes a substantial donation.

In FY2018 two very important local charities were supported: Tulgeen supported accommodation services, and the Mayoral Appeal Fund for the Tathra bushfire recovery effort.

The shortage of housing for supported accommodation is a very important issue and Bega Cheese has again chosen Tulgeen as a designated charity for the coming year. Previous recipients of the annual Bega Cheese auction include the Community Carers Accommodation South East at the regional hospital, and the Youthland project at Jigamy (a camp that educates young people about aboriginal culture).

OUR PEOPLE



OUR PEOPLE

Our people are key to our integrity and success. At Bega Cheese we have a diverse and inclusive workforce of over 2,000 employees, and we are committed to creating a workplace where all our people can thrive.

Our Code of Conduct, referred to throughout this report, is the cornerstone of our commitment to ethical behaviour. It outlines our business, social and environmental responsibilities and the standards by which our employees work. This guiding set of principles sets the benchmark for the way we do business at Bega Cheese, ensuring we observe the highest standards of business conduct. It outlines the responsibilities that Directors, employees, contractors and consultants, have toward Bega Cheese and covers multiple aspects of our business including, health and safety, conflicts of interest, fair business practices, community engagement and grievance processes. Each staff member is required to read and sign that they understand and will adhere to our Code of Conduct.

We respect our employees' right to freedom of association and collective bargaining. Approximately 71 per cent of our staff's employment arrangements are covered by collective bargaining agreements.

SOCIAL DIVERSITY AND EQUAL OPPORTUNITY

We continue to be guided by our Board-approved Diversity and Inclusion Strategy for 2017-20. The strategy outlines how we work to foster a diverse and inclusive workplace.

Bega Cheese is proud of our diverse workplace and we believe this brings a wide array of thinking, perspectives and experience which promotes innovation, enhances quality decision making, and enables us to attract and nurture the best talent.

Our commitment to diversity and inclusion is formalised in the Bega Cheese Diversity and Inclusion Policy, which has five elements: leveraging strengths, developing people, understanding people's needs, community, and removing barriers.

SUPPORTING NEW PARENTS

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

SUPPORTING MATURE AGE EMPLOYEES

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

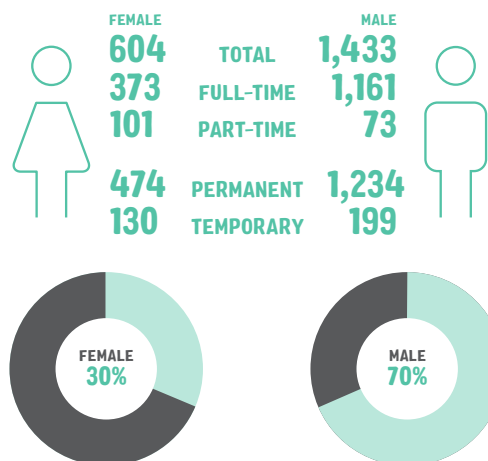
WORKING FLEXIBLY

We strive to provide a flexible working environment that accommodates the needs of our people, our customers and our business. A flexible working policy and process exists for salaried employees, which employees and their managers can work through to determine whether flexible working requests can be accommodated. Access to flexible working options can improve productivity and support a more sustainable work-life balance.

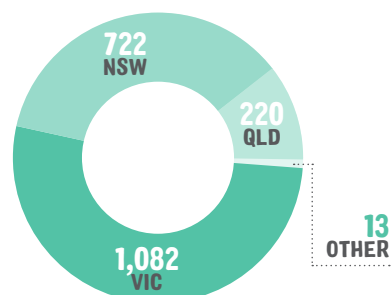
EMPLOYEE BREAKDOWN BY EMPLOYMENT TYPE AND GENDER

Staffing data also includes the Derrimut site which is operated by Bega Cheese Group, although owned by Reckitt-Benckiser since April 2018. Data for both Kingaroy and Tolga are included although the sites have only been owned for half of FY2018.

BEGA CHEESE EMPLOYEE BREAKDOWN BY EMPLOYMENT TYPE AND GENDER.



NUMBER OF EMPLOYEES BY STATE



GENDER EQUALITY

Bega Cheese is committed to promoting gender equality in the workplace. We remain focused on increasing the percentage of leadership positions held by women - an opportunity that is key for our organisation.

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

We aim to:

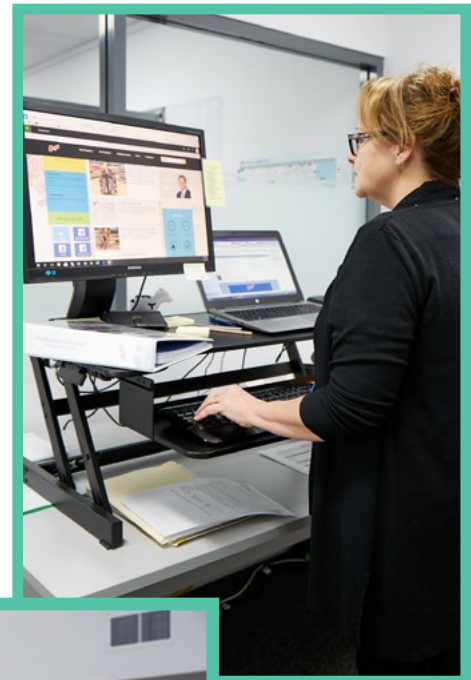
- increase the representation of women in management positions to the overall proportion of women employed by the Group to 30% (currently 26%)
- have succession plans in place for all Executive team positions with a diverse pool of identified successors
- actively manage any gender pay equity imbalances
- ensure our employment practices generate a diverse pool of candidates
- measure the effectiveness of the diversity and inclusion strategy through engagement survey feedback.



HEALTH AND WELLBEING

In May 2018 office staff at Bega, Tatura, Coburg and Port Melbourne participated in Rise and Recharge, an initiative Bega Cheese has modelled on the Baker Heart and Diabetes Institute's program. On Rise and Recharge day, staff were asked to consider their own health and to focus on movement every 30 minutes to avoid prolonged sitting.

Sedentary behaviour is known to have serious health effects, such as increased risk of diabetes, heart disease, some cancers and reduced life expectancy. Ideas for moving include standing up and stretching, taking a small walk to the kitchen, bin or bathroom, visiting a colleague's desk, trying a standing desk or standing meeting table, standing up in meetings or trying a walking meeting around the block. The leadership team provided tips and messages to encourage all staff to take care of their health.



A SAFE WORKPLACE

We are committed to ensuring a healthy and safe work environment for our employees, contractors and visitors to our sites. Ensuring the safety of people presents significant challenges across the agriculture industry, on farms and in manufacturing. Our approach is guided by compliance with the Occupational Health and Safety Act 2004 in Victoria, the Work Health and Safety Act 2011 in New South Wales and the Work Health and Safety Act 2011 in Queensland. Each state also has a series of Occupational Health and Safety (OHS) regulations beneath the Acts which set out how the business must comply.

SAFETY MANAGEMENT

We have a single safety management system comprising policies, procedures and standards which covers the Bega Cheese Group as a whole, including all sites. Our approach to safety is risk-based, meaning we identify hazards, assess risks and then implement controls to eliminate or at least reduce risks to as low as possible. We also invest in our people to ensure that employees are able to make informed decisions to avoid exposure to harm and have implemented six Golden Safety Rules which establish minimum standards of safety to protect people from the risks most likely to cause serious injury, illness or death.

Each role level within the organisation has defined responsibilities for OHS, with more senior roles having the accountability for oversight of performance, including compliance and implementation of controls. Compliance is evaluated through audits and inspections that occur at defined intervals. Key performance indicators have been established to measure various aspects of safety including time taken to implement controls for identified hazards and issues.

Each site has a risk register which details key actions taken and this is reviewed during February and March each year. During FY2018, each site continued to focus on ensuring better segregation between people and mobile plant. Another significant focus was work to address machine guarding issues identified in a Group audit that was completed in FY2017.

REVIEWS AND AUDITS

A management review is conducted during the last quarter of each year to evaluate the recent safety performance and outcomes from audits. Internal audits are scheduled regularly – in FY2018 Bega Cheese commenced a series of deep audits to assess the effectiveness of Lock-out and Tag-out (LOTO), a safety procedure that ensures that dangerous machinery and energy sources are properly shut off and not started up unexpectedly while maintenance or service work is being completed. The series of audits also covered traffic management and chemical management. Management and the Board receive monthly reports on our safety performance. A quarterly OHS report is submitted to the Audit and Risk sub-committee. In addition, a six-monthly Board due diligence review is completed.

In FY2018 Bega Cheese engaged a third party to perform a gap audit against OHSAS 18001, an external benchmark standard for management systems. A small number of recommendations were made as a result of the gap audit and we are now working to align our system to this standard, with the aim of seeking future certification. The gap audit identified that some enhancements are required to the existing safety management system before the AS/NZS 18001 can be achieved. This includes improving some of the statements made in our health and safety policy and in the way it is communicated to our people, reinforcing the linkage between our strategic plans and executive accountabilities, and ensuring a greater emphasis on requirements to improve safety in design. The safety team is currently working to address these recommendations as part of the FY2019 plan.

SAFETY PERFORMANCE IMPROVES YEAR-ON-YEAR

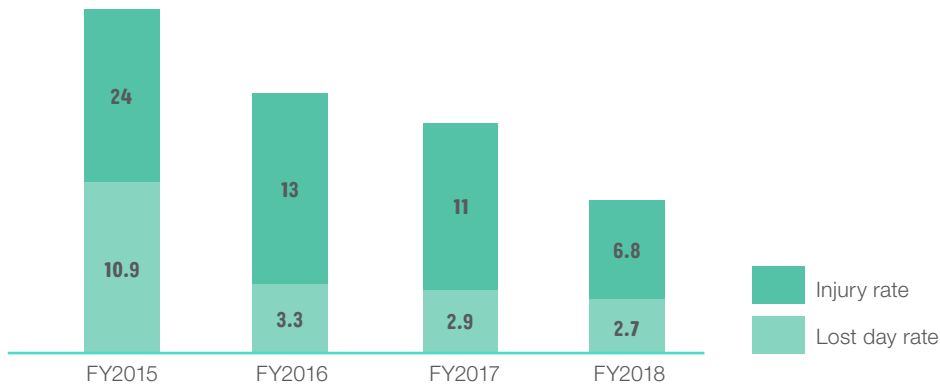
Our safety performance continues to improve year on year, with an increased emphasis on reducing risk exposure through ongoing investment in our people and our assets.

In FY2018 there was a strong focus on embedding a culture of safety within the organisation. During the year line leaders and managers from across six sites participated in a behavioural safety program designed to improve engagement with our employees and build capability in recognising, understanding and minimising exposure to risk.

We are committed to eliminating injuries as we strive to achieve a Total Recordable Injury Frequency rate (TRIFR) of zero, although we recognise that there is still some way to go. During FY2018, Bega Cheese Group's TRIFR per million hours worked was 6.8, which represents an improvement of 36% on the previous year. We calculate TRIFR as Lost Time Injuries plus Medical Treatment Injuries plus Restricted Work Injuries per one million hours worked. Lost Time Injury Frequency Rate is presented per one million hours worked. The data includes Victorian sites at Coburg, Derrimut, Tatura, Strathmerton, and Vegemite Way in Port Melbourne, Queensland sites at Kingaroy and Tolga, plus both the Ridge Street and Lagoon Street sites in Bega.

There were no workplace fatalities, prosecutions, fines or penalties for occupational health and safety issues in FY2018. The data includes direct employees and workers employed through labour hire contracts. It does not include workers employed through contractors on larger-scale engineering projects or suppliers.

TOTAL RECORDABLE INJURIES



- Total Recordable Injury Frequency Rate (TRIFR) is calculated as the total number of recordable injuries for each million hours worked. Recordable injuries includes all lost time injuries, medical treatment injuries and restricted work injuries.
- Safety data also includes the Derrimut site which is operated by Bega Cheese Group, although owned by Reckitt-Benckiser since April 2018. Data for both Kingaroy and Tolga are included although the sites have only been owned for half of FY2018.

PLANS FOR FY2019



Develop pathway to certify our safety management system initially to AS/NZS 18001 and then to the new global safety standard ISO 45001

Review our Golden Safety Rules

Continue our behavioural leadership program across managers, supervisors, team leaders, and health and safety representatives

Develop additional lead safety measures to focus the business on key activities to drive further improvement

OUR COMMITMENT TO QUALITY, SAFETY AND THE ENVIRONMENT

In August 2017, Bega Cheese developed a document to clearly state our commitment to our People (Safety), Products (Quality) and Communities (Environment) and ensure alignment with our business values.

Our Commitment to Quality, Safety and the Environment, which compliments individual Quality, Safety and Environment policies, is a statement of intent that is displayed throughout the business and communicated to internal and external stakeholders, so that when they engage with our organisation they have a fundamental understanding of how we operate.



HEALTH AND NUTRITION



FOOD SAFETY

As a food manufacturer, food safety is paramount to our business. We continually review and update our food safety and quality standards based on industry best practice, customer expectations, international standards, history of events and emerging issues. These standards are documented as Quality Management Requirements, managed by the Bega Corporate Quality team and applied across internal and external manufacturing sites.

As a food manufacturer and co-manufacturer, Bega Cheese quality and food safety management systems are frequently audited by second and third parties. In FY2018, a combined 91 audits consisting of 143 audit days were conducted across the group (excluding Koroit), with no serious food safety concerns being identified.

All Bega manufacturing plants are certified to the British Retail Consortium (BRC) Global Standard for Food Safety. SAI Global, the worldwide leading provider of supplier evaluations to the BRC standard, continue to be our provider of choice for auditing against the standard. Auditing by SAI global across all sites ensures consistency in the audit approach. This supports continuous improvement in quality and food safety management across the Bega Cheese Group. All sites (including Koroit) hold an A or AA rating under this certification scheme.

We are pleased to report that we had no enforced or voluntary product recalls for food safety issues in FY2018. There were no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our products.

NUTRITION

We recognise the importance of human health and nutrition for our dairy and diversified food business. Bega Cheese is committed to ensuring there is a variety of nutritious options for all our consumers and customers.

We need a wide variety of different foods to provide the right amounts of nutrients for good health. An unhealthy diet, along with its associated obesity and high blood pressure, is now globally the main risk factor for early death⁴. An informed purchasing decision is enabled when there is improved nutrient profiles, consistent education about nutrient dense options, use of fortification as a means for enhanced nutrition, and a variety of options provided within a product category. Some examples include reduced salt and reduced fat foods, fortification to address particular age group needs, and the promotion of the nutrient density and health benefits of key categories such as dairy and peanuts.

Bega Cheese is further developing our approach to Health and Wellbeing. The details will be included in future sustainability reports.

Bega Cheese has an important future role to play by supporting local farmers, helping consumers make sustainable food choices, supporting good nutrition for all, and fighting food waste.

We look forward to embracing the challenges and opportunities that lay ahead in these areas.

In FY2018, a combined **91 AUDITS** consisting of 143 audit days were conducted across the group (excluding Koroit), with no serious food safety concerns being identified.

PLANS FOR FY2019



- Maintain zero product recalls for food safety
- Continue quality and food safety management integration of newly acquired businesses



⁴ *The International Burden of Disease Study: Global, regional, and national comparative risk assessment of 79 behavioural, environmental and occupational, and metabolic risks or clusters of risks in 188 countries, 1990–2013: a systematic analysis for the Global Burden of Disease Study 2013. The Lancet. Volume 386, Issue 10010, P2287-2323, December 05, 2015*

CASE STUDY: FOODBANK



Bega Cheese became a National Donor to Foodbank in 2018, donating 36,737 kilograms of products to the organisation during the financial year. Foodbank is Australia's largest hunger relief organisation, providing 63 million meals a day to over 2,600 charities and 1,750 schools.

Each year Foodbank distributes over 35 million kilograms of food and groceries, the equivalent of over 172,000 meals a day. Foodbank accounts for 70% of all the food distributed to charities by food rescue organisations in Australia. They work with the entire Australian food and grocery industry including farmers, wholesalers, manufacturers and retailers.

Donations include stock that is out of specification, close to expiry, or excess to requirements. Companies also make donations as part of a commitment to social responsibility or a cause-related marketing campaign. In addition, Foodbank collaborates with suppliers, manufacturers and transporters in programs aimed at sourcing key staple foods that do not come in sufficient quantities via rescue channels.

Bega Cheese staff volunteer their time to Foodbank to help pack food parcels. Products donated to Foodbank include cheese, dips, dressings and spreads. We also support Foodbank by discounting Vegemite for inclusion in various school breakfast programs and other hampers across Australia.



CASE STUDY: STAFF HELP LOCAL COMMUNITIES “EAT UP”



This year staff at our Vegemite Way site in Port Melbourne, Victoria, teamed with the “Eat Up” project to make cheese sandwiches.

“Eat Up” recognises that one in eight Australian children go to school without lunch each day and works with volunteers to prepare sandwiches and deliver meals to schools around Melbourne and regional Victoria. Since 2013 they have delivered over 80,000 sandwiches, servicing 101 schools.

Putting their handy sandwich-making skills to work, our volunteers made, wrapped, and stacked over 1,100 cheese sandwiches in just under an hour. The “Eat Up” team shared stories with our volunteers who were inspired by the impact the organisation is having for many children in need.

Bega Cheese also donated cheese and Vegemite to make many more sandwiches. We are continuing our dialogue with the “Eat Up” team to explore how we can further support their inspiring mission to make a difference.



ENVIRONMENT



ENVIRONMENT

As a food producer, many of our environmental impacts are in our supply chain and on farms. The environmental impacts of our manufacturing sites across Australia include energy consumption, water consumption, solid waste generation, wastewater management, air emissions and local noise and odour.

In FY2018, our actions to reduce environmental impacts and address material customer, community and sustainability issues included the following highlights:



- reducing potable water intensity by 9% across Bega Cheese Group



- commencing a major upgrade to the wood-fired boiler at our Lagoon Street site in Bega, to reduce particulate emissions and improve energy efficiency



- engaging an energy advisory consultant to identify energy saving opportunities at each site and assist the business develop a business wide energy roadmap



- improving our recycling rates by 6% in New South Wales



- recovering steam from the cheese plant at Tatura to save water and energy with anticipated savings of \$159,000 per year



- reducing cream losses at Tatura by increasing investment in product handling and storage technology, with anticipated savings of \$950,000 per year, and the equivalent saving of 500,000 litres of cream per year.

MANAGING ENVIRONMENTAL IMPACTS

Our commitment to managing environmental impacts involves identifying how each of our sites interact with the environment, assessing and rating impacts or improvements, and then prioritising and establishing programs to manage those impacts.

We foster a mindset of continuous improvement throughout the organisation. Bega Cheese is progressively establishing site-based Continuous Improvement (CI) teams that work cross-functionally with key departments and business systems. CI teams have become instrumental in assisting staff with ideas for improvement, ensuring projects are carefully assessed on merits and enabling priority projects to commence implementation. In FY2019 we will have a group-wide CI function, allowing a consistent framework for improvement projects across the business.

Each of our sites has a strong focus on their most significant environmental risks and sustainability concerns and operates under an environmental management system (EMS) aligned to ISO 14001. During FY2018 we made solid progress in developing a corporate-wide EMS. This included streamlining our aspects and impacts registers and aligning many of our operational control processes. We anticipate engaging a third party to conduct an external AS/NZS 14001 gap audit in FY2019 which will enable the business to develop a pathway to certification.

Given our recent business acquisitions, we are progressively aligning and streamlining our environmental management and reporting processes across the Bega Cheese Group. A corporate-wide EMS is under development. Under the EMS, each Bega Cheese site maintains an aspects and impacts register that details environmental risks and opportunities. These are systematically reviewed, assessed, and ranked with approved controls selected to avoid, remedy or further mitigate impacts.

ENVIRONMENTAL COMPLIANCE

Bega Cheese 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).

Our manufacturing sites are licenced under their respective State Environment Protection Regulations. The licences stipulate performance standards as well as specific monitoring requirements for emissions such as noise, air, odour and wastewater.

During FY2018 Bega Cheese Group complied with all statutory and voluntary reporting requirements and continues to monitor and report on our carbon intensity.





Bega Cheese Group was granted an extension to a Pollution Abatement Notice (PAN) requiring the business to comply with noise emission requirements 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. A final report was submitted to the EPA, indicating that the business had substantially improved noise emissions from the site and was now compliant with prescribed limits for day and night. On 27 June 2018 the EPA acknowledged that the site complies and revoked the PAN.

ENERGY

Energy is a material sustainability issue for the Group and is critical to all aspects of our operations from milking, making cheese, producing milk powders, manufacturing Vegemite and peanut butter, to delivering it to customers.

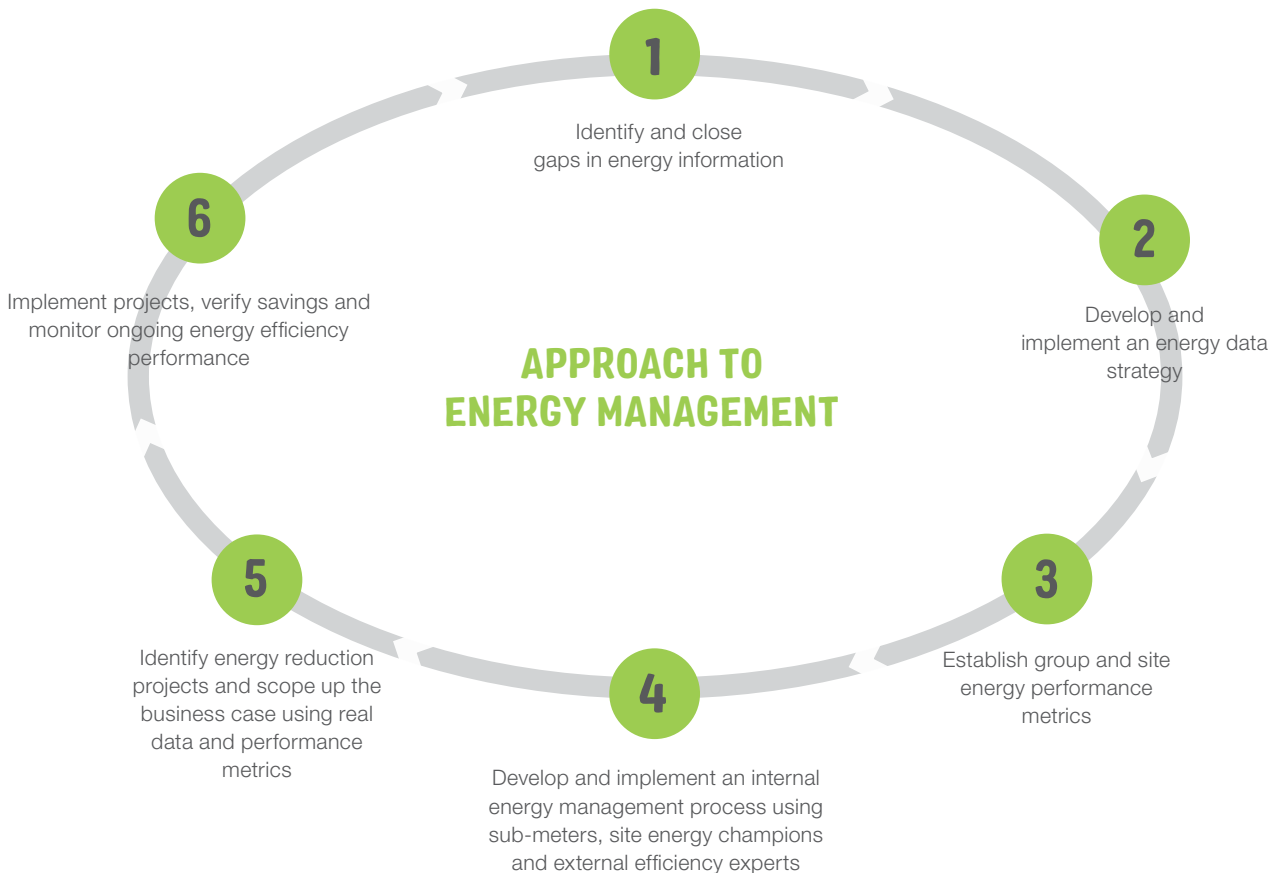
Our energy target for FY2018 had been set at 5.70 GJ/t. However due to recent acquisitions resulting in the establishment of our Bega Foods division, which has a higher energy intensity than other business units, this target was revised to 6.48 GJ/t during the year. The actual result for FY2018 was 6.19 GJ/t.

In FY2018 Bega Cheese Group 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
-  • reduce exposure to energy price fluctuations.

Our work on the Energy Roadmap has shown that Bega Cheese Group has the opportunity to realise a 20% reduction in energy spend over three to four years, through the development and implementation of energy efficiency projects.

The approach we take to energy management involves six key steps, with an emphasis on continual improvement, as follows.



As our approach has developed, Bega Cheese Group has shifted energy reduction responsibilities from our maintenance and engineering functions to newly established site-based Continuous Improvement (CI) teams. CI teams are integrated with key areas of the business, providing broad knowledge of commercial opportunities, operational activities and business information systems. Coordinated by the Group Supply Chain Manager, the year-old Energy Working Group has oversight of the energy project which couples energy reduction with procurement and supply for a more holistic energy management approach.

The teams assess their progress against our roadmap objectives and savings targets, using Group and site energy performance metrics.

We have allocated \$1 million in FY2019 across six sites in the Group for developing energy management capability. This will identify where to install energy sub-meters, progress the installation of the sub-meters and data analysis software, establish a site energy champion and engage an external energy efficiency consultancy. The external consultancy will analyse energy performance via software and recommend priority energy reduction actions and projects for implementation by Bega Cheese. The project will provide real, accurate energy consumption data and performance metrics enabling the development of robust business cases for energy reduction projects, along with developing an internal energy management process and capability. The six sites involved are the Lagoon Street and Ridge Street sites in Bega, New South Wales, and the Strathmerton, Tatura, Port Melbourne and Koroit sites in Victoria.

TOTAL ENERGY CONSUMED BY SOURCE

Energy and greenhouse gas emissions includes data from January 2018 onward for the Peanut Company of Australia manufacturing and storage facilities.

ENERGY SOURCE	2017/18 ENERGY CONSUMPTION (MJ)
Natural gas	1,029,263,990
Electricity	352,652,528
Wood waste	279,593,600
Stationary LPG	33,941,972
Transport diesel	1,197,495
Transport petrol	1,196,092
Total	1,697,845,677

PLANS FOR FY2019



Continue to implement Energy Roadmap by developing an energy policy and site specific energy management plans

Achieve an energy intensity target of 6.10 GJ/t

ENERGY INTENSITY BY FINANCIAL YEAR

BEGA CHEESE LIMITED	FY2015	FY2016	FY2017	FY2018
Energy in gigajoules per tonne*	6.79	6.24	6.03†	6.19
	Ridge, Lagoon, Tatura, Strathmerton, Coburg, Derimut	Ridge, Lagoon, Tatura, Strathmerton, Coburg, Derimut	Ridge, Lagoon, Tatura, Strathmerton, Coburg, Derimut	Ridge, Lagoon, Tatura, Strathmerton, Coburg, Bega Foods from Jul 2017, plus PCA from Jan 2018

* In the FY2017 report, the unit of measure was incorrect (GJ/kg) and this has been corrected for this cycle (GJ/t).

† This is a restatement based on a revision of the LPG energy figures post publication of the FY2017 Report.



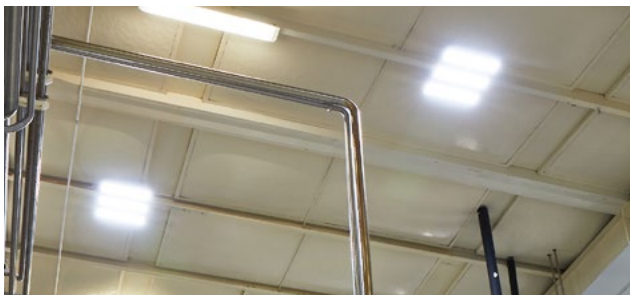
THE ENERGY INTENSITY OF THE LAGOON STREET SITE IN BEGA IMPROVED FROM 11.5 ↓ TO 9.1 GJ/T

The energy intensity of the Lagoon Street site in Bega improved. This was achieved by improving the feed water temperature to the wood-fired boiler and improvements in the whey drying process by capturing waste heat. This reduced the amount of fuel required to burn, in turn reducing the generation of boiler ash.

CASE STUDY: LIGHTING UPGRADE IN TATURA BOOSTS ENERGY SAVINGS



Tatura Milk Industries invested around \$290,000 in FY2018 to install 278 large LED lights. This is expected to reduce electricity consumption by around 1.2 million kilowatt hours and save almost \$215,000 annually.



The more energy efficient LED lights are replacing Metal Halide Highbay and Flood Lights. The LED lights have a service life of 100 thousand hours, which is up to five times higher than the 15-20 thousand hours life of Metal Halide lights.

Due to their longer life, LED lights greatly reduce maintenance costs. This project has resulted in a 66% saving in energy consumed per light fixture. Motion and light sensors have further reduced energy consumption per light fixture to up to 87%. There is more work planned in the coming year to install an additional 126 LED lights in the warehouse.

CASE STUDY: WATER SAVINGS THROUGH IMPROVED REMOVAL OF 'BOILER BLOWDOWN WATER'



In FY2018, a project to remove boiler blowdown water from the main cooling tower at our Tatura site has significantly reduced water consumption and the use of chemicals. This project reduced trade waste effluent volume by 90 megalitres, saves 90 megalitres of town water per year and freeing up around 2,750 gigajoules of cooling capacity annually. The cost of the project was just over \$65,000 and it will return annual savings of around \$106,000.

Boiler blowdown is water that is intentionally removed from a boiler to avoid concentration of impurities during the evaporation of steam. The water is blown out of the boiler with force by steam pressure within the boiler. Some of the boiler water is removed (blown down) and replaced with feed water.

Prior practice was to discharge the boiler blowdown water into a hot well in the main cooling tower. Blowdown water is very hot, saline and alkaline, and counterproductive to the cooling tower's cooling performance, so this required extra water consumption and chemical use to counteract its impact. The high salinity of blowdown water was also causing corrosion of cooling tower equipment. The decision made many years ago to direct hot blowdown water to the cooling tower was aimed at reducing the temperature of trade waste effluent, and damage to plastic trade waste drains. It was also thought to improve staff safety at the time.

The project involved installing a heat dissipation vessel and new pipework, to allow for the safe discharge of the blowdown water directly to the trade waste system. This diverts it away from the cooling tower and ensures the hot water is cooled before discharge to trade waste. As a result, there has been no compromise to staff safety.

The advantages of this project are as follows.

- **Reduction in water use and trade waste:** potable water was previously added to the cooling tower to maintain cooling tower volume and water conductivity, increasing the use of water in the cooling tower by about 90 megalitres per year. The elevated salinity levels of the boiler blowdown water caused increased discharge from the cooling tower, which in turn increased trade waste volume. Because this is no longer required, significant water volume is now saved and trade waste volume is reduced.
- **Chemical use reduction:** a significant amount of sulphuric acid was previously being added to counteract the impact of the boiler blowdown water on the cooling tower water quality. Removing the boiler blowdown water from the cooling tower has significantly reduced the use of acid.
- **Improved performance of the main cooling tower:** around 7.5 gigajoules per day of cooling capacity was previously required to cool the blowdown water, which is now better utilised for cooling production operations.
- **Reduced corrosion and maintenance costs:** maintenance requirements are expected to reduce as the high saline content of blowdown water previously caused corrosion of the cooling tower fan assemblies.



CASE STUDY: RE-USING STEAM CONDENSATE SAVES ENERGY AND WATER

A recent project in Tatura has enabled steam from some of the production areas to be re-used as clean water for boilers. This project saves 26.7 megalitres of water per annum and reduces the site's gas demand by an average of 7,720 gigajoules per year. While the associated capital cost of this project was approximately \$317,000 it will deliver annual savings of around \$160,000.



When steam is used in production areas it condenses into very hot, clean water called condensate. This water is ideal for reuse in the boilers, however it was previously disposed of through the trade waste system, and not reused. The steam condensate recovered by this project is produced in the Central Clean In Place (CIP) Plant and is also produced by other equipment in our cheese plant, such as our cream cheese pasteuriser, cream cheese separators, pre-heaters and the high fat pasteuriser.

Installing a steam condensate return system

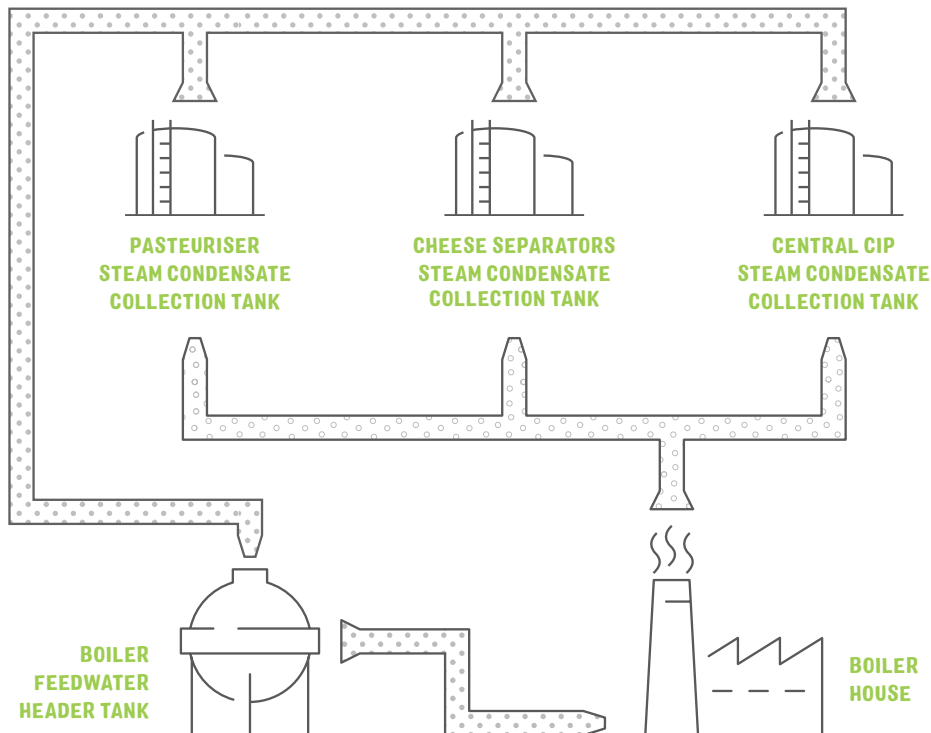
In FY2018, a project was initiated to install a steam condensate return system to collect steam condensate from these production areas and to return it to the boiler feedwater tank. The system was designed in-house by one of our own on-site engineers.

The advantages of this project are as follows:

- Reduced energy consumption** - whereas previously the water going into boilers needed to be heated, steam condensate is already very hot, resulting in a significant saving on energy consumption required for heating water. As a result, the site's gas demand has decreased by an average of 7,720 gigajoules per year.

- Decreased trade waste volume** - returning the steam condensate to the boiler, or for use in washing, decreases trade waste discharge by an average of 18.7 megalitres per year. In addition, eliminating the use of town water to cool the condensate also further reduces trade waste by 8 megalitres per annum. Combined, this project saves 26.7 megalitres of water per annum.
- Reduced steam usage** - steam use has been reduced by 405,244 kilograms per year.
- Reduced chemical use** - re-using the condensate in the boilers results in reduced chemical use within the boilers.
- Cleaner feed water** - properly managed steam condensate is preferred over any other boiler feed water source as it produces less 'scale' which improves boiler efficiency. Because it has already been evaporated inside the boiler, the majority of contaminants are removed.

Due to increased production levels, the financial return of this project has increased. An increased volume of steam is being handled, meaning more water is being returned. A recent natural gas price increase has further increased the cost benefits.



CLIMATE CHANGE

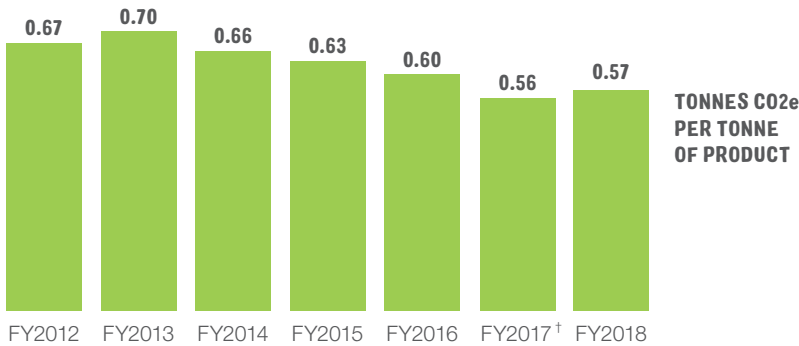
We understand the science of climate change and the global consensus of the Paris Agreement which commits to hold the increase in the global average temperature to well below 2°C, relative to the preindustrial period.

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

Climate change presents multiple risks and opportunities to our business and we are yet to review our target relative to the Paris Agreement or to fully consider the recommendations of the Taskforce on Climate-Related Financial Disclosures. Our immediate focus is on energy efficiency but we will review our overall approach to climate change in FY2019 and FY2020.

Our greenhouse gas emissions intensity target for FY2018 was 0.53 tCO₂e/tonne of product. This target included the challenge of incorporating the operations of the Bega Foods and Peanut Company of Australia businesses, which have different product mixes and energy profiles to the rest of the Bega Cheese Group. Our resulting greenhouse gas emissions intensity for FY2018 was 0.57 tCO₂e/tonne of product.

GREENHOUSE GAS EMISSIONS INTENSITY

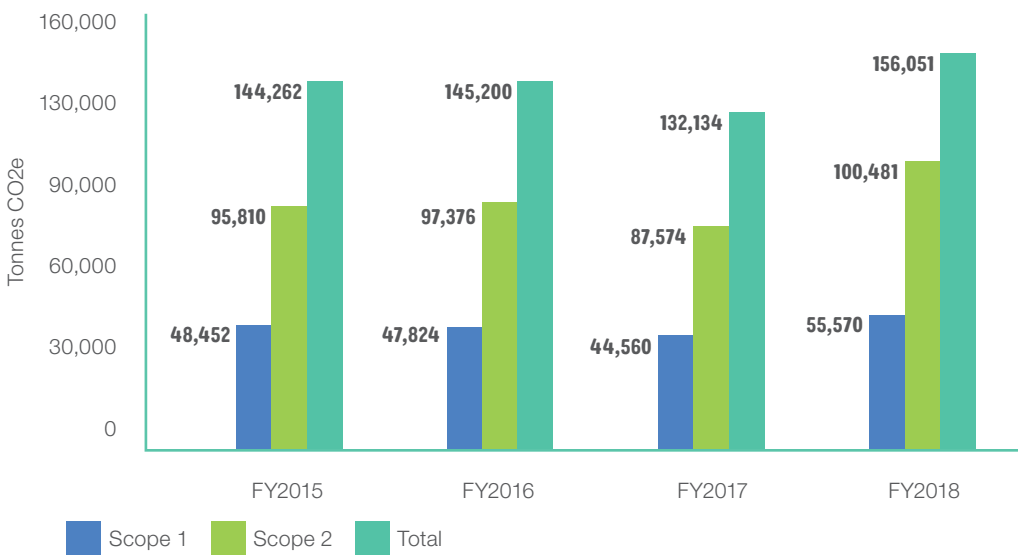


[†] This is a restatement based on a revision of the LPG energy figures post publication of the FY2017 Report

PLANS FOR FY2019

Establish a long term target to reduce CO₂ emissions

GREENHOUSE GAS EMISSIONS



Scope 1: Direct GHG emissions – GHG emissions from sources that are owned or controlled by an organisation.

Scope 2: Energy indirect GHG emissions – GHG emissions that result from the generation of purchased or acquired electricity, heating, cooling, and steam consumed by an organisation.

WATER MANAGEMENT

In the manufacturing of our products, cleaning is the single largest water-consuming process and is driven by food safety requirements. While our immediate focus is on energy efficiency, the relationship between energy consumption and water consumption in food processing is closely linked. Water used for heating, cooling and cleaning drives energy consumption. As part of our Energy Roadmap work and the installation of energy meters, we will also identify gaps and needs for water metering where water is used as an energy driver. This will provide a platform for addressing water efficiency opportunities in the future.

Our target for FY2018 was to reduce potable water intensity to 8.48 kL/t. We achieved the target, with an actual water intensity of 7.69 kL/t, a reduction of 9%. This target and result includes data from the Peanut Company of Australia's manufacturing sites and storage facilities.

In FY2018 our wastewater per tonne of product decreased from 8.52 kL/t to 8.09 kL/t.

Waste water data does not include the Peanut Company of Australia which has primarily dry manufacturing where mechanical cleaning is used.

Bega Cheese is reviewing the way it treats and manages milk solids within the various product streams, exploring opportunities to optimise fat, protein and lactose within the process. Reducing the loss of milk solids during processing represents a significant opportunity, given the cost implications of trade waste treatment as well as the loss of a valuable raw material.

A number of examples showcase the great work of our Continuous Improvement (CI) teams.

At Tatura, our CI team implemented around 40 large and small projects to reduce the amount of product lost to drain. While the intake of milk solids increased by 16.5%, the team was still able to reduce the kilograms of milk solids lost to trade waste by 18%.

The site's wastewater per tonne of product dropped significantly. While there was around 4.5% more trade waste volume in FY2018 compared to FY2017, production increased by almost 20%.

In New South Wales, the Bega Valley Shire constructed the municipal wastewater system that our local sites will connect to in 2019. Bega Cheese contributed funds to the Bega Valley Shire Council to support this initiative which will eliminate the risk of contaminants being irrigated onto land.

To improve the sustainability of wastewater irrigation, capital investment has been approved to install an ultrafiltration plant in FY2019 to recover milk solids otherwise lost to drain. Bega Cheese has also conducted successful trials to reduce sodium in wastewater by 26% from precipitation.

BREAKDOWN OF WATER WITHDRAWAL BY SOURCE

Water consumption includes data from January 2018 onwards for the Peanut Company of Australia manufacturing and storage facilities.

WATER WITHDRAWAL BY SOURCE (ML)	FY2015	FY2016	FY2017	FY2018
Ground water	348	340	330 †	331
Municipal water	1,661	1,906	1,730	1,691
Total withdrawal	2,009	2,246	2,060	2,022
Recycled and reused water	618	656	570	569

† This is a restatement due to last year's figure being taken from the wrong data source.

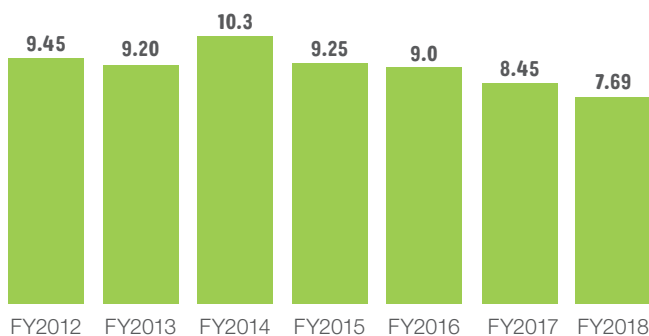
PLANS FOR FY2019



Achieve a water intensity target of 7.80 kL/t

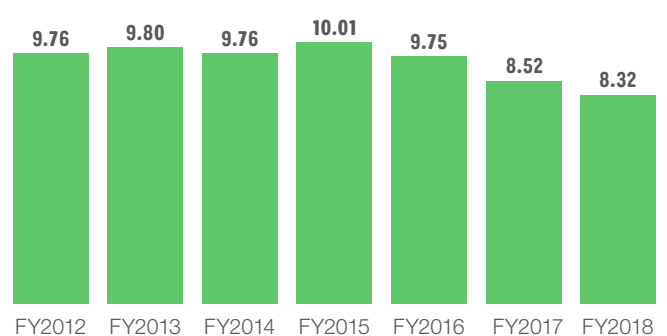
WATER INTENSITY

Potable water intensity (kL/t)



WASTEWATER PER TONNE OF PRODUCT

Wastewater (kL/t of product)



PACKAGING AND SOLID WASTE

This year Bega Cheese Group's landfill intensity was 7.67 kg/t, slightly over our target of 7.61 kg/t.

Bega Cheese Group's solid waste recycling rate was 62% and under the target of 68%. Both our Coburg and Tatura sites in Victoria exceeded their targets. Performance this year was influenced by planned recycling initiatives that could not be implemented due to feasibility issues and the volatility of the waste and recycling industry nationally during this year.

In April of this year, the Council of Australian Governments set a target to achieve 100% recyclable, reusable or compostable packaging in Australia by 2025. We welcome the national target which will help to leverage innovation in packaging, and waste reduction opportunities, in the sector.

Bega Cheese:

- reduced packaging or optimised packaging material efficiency in 50% of our packaging volume
- reviewed 50% of packaging with reference to the Sustainable Packaging Guidelines⁵
- is developing a plan or investigating opportunities to reduce the amount of single use business-to-business (B2B) packaging used internally or sent to customers
- is investigating opportunities to divert more than 50% of solid waste generated at facilities from landfill.



We are an active member of The Australian Packaging Covenant Organisation (APCO) which is a co-regulatory, not-for-profit organisation that partners with government and industry to reduce the harmful impact of packaging on the Australian environment. In FY2018, we achieved Level 2 (Good Progress) for the APCO core criteria.

SUSTAINABLE PACKAGING

Throughout FY2018 we made key changes and improvements to the following sub-categories with our packaging portfolio.

Clamshell packaging (cheese slices)

With the support of two of our large customers, we transitioned our clamshell packaging across a select scope of our sliced cheese products from PVC (polyvinyl chloride) to recyclable PET (polyethylene terephthalate). Specifically, five million units were changed over, representing 15% of our total clamshell packaging.

Customers are supporting this change, which will reduce our environmental footprint and meet consumer expectations. Clamshells continue to be a popular packaging choice, particularly with food producers. They are durable and allow consumers to view the product while reducing damage. Empty clamshells can be nested reducing the need for storage and transport space.

We expect to see further adoption of Clamshells in PET across our customer base in FY2019.

Tubs and lids (cream cheese)

Cream cheese tubs and lids were historically manufactured using HIPS (high impact polystyrene) which was not recyclable in FY2017. This year, we transitioned the packaging to recyclable PP (polypropylene plastic), producing 3.5 million recyclable cream cheese packs in FY2018 at our Tatura site in Victoria.

In addition to this, the labels on the tubs and lids are "in-mould" meaning that they are an integral part of the packaging itself and fully recyclable.

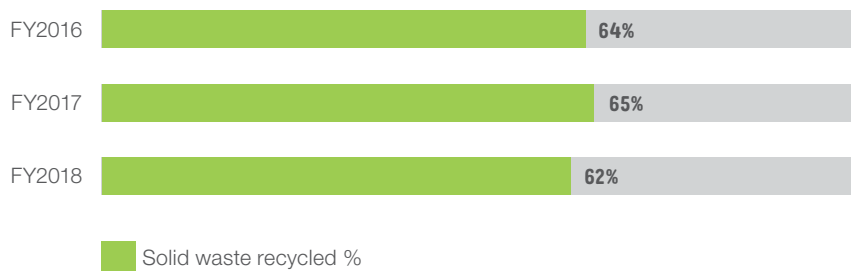
Cheese film (individually wrapped slices or "IWS")

Throughout FY2018 we transitioned the plastic film used to wrap our individually wrapped slices at our Ridge Street site from 27um (micrometres) to 23um. This resulted in a net weight reduction of 11,162 kilograms of plastic waste-to-landfill over the year.

Our Group landfill intensity target for FY2019 is 7.7 kg/t and a 62% diversion rate from landfill.

⁵ <https://www.packagingcovenant.org.au/documents/item/1091>

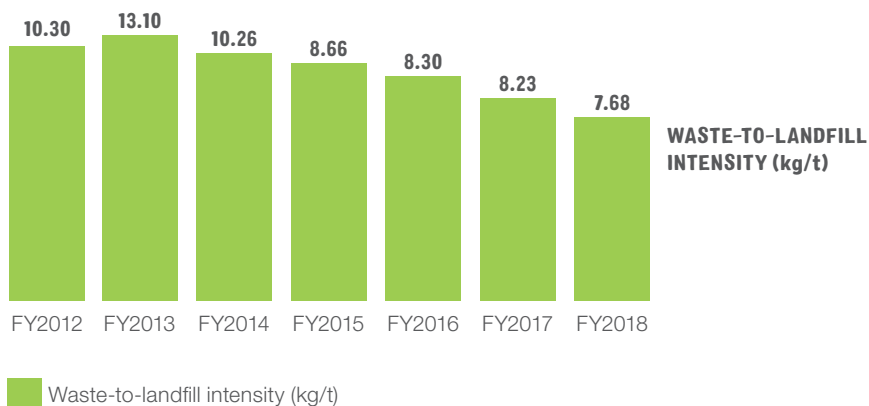
PERCENT OF SOLID WASTE RECYCLED



PLANS FOR FY2019

Achieve a FY2019 landfill intensity target of 7.7kg/t, and a 62% diversion from landfill rate

WASTE-TO-LANDFILL INTENSITY



SOLID WASTE FY2018

WASTE TYPE	WEIGHT OF WASTE (kg)
Non hazardous waste	5,494,582
Reuse	30,800
Recycling	3,260,869
Landfill	2,233,713

Waste data for our sites at Gayndah and Inverlaw in Queensland will be included in FY2019.

CASE STUDY: A WIN FOR THE FARM AND THE ENVIRONMENT – USING BOILER ASH AS SOIL CONDITIONER



A continuous improvement idea has led to 30.8 tonnes annually of waste-to-landfill being diverted and reused as a soil conditioner.

Generating new ideas

An innovative idea emerged in late 2017 at our Lagoon Street site in Bega to convert boiler ash previously sent as waste-to-landfill into free soil conditioner for farmers.

Boiler ash is produced by the burning of sawdust, sourced locally from the wood industry around Bega Valley. This fuels the wood-fired boiler at the dairy processing plant at the Lagoon Street site. The heat generated produces steam used in production processes, such as cheese making, drying and cleaning.

“Our team has weekly Ideas Generation Sessions led by Sean Moran our Site Manager and Dave Long, our Continuous Improvement Manager. At one of these sessions in August 2017, it was suggested we look at boiler ash and the possibility of sending it to farmers for use, because it has similar properties to lime. Soils around the Bega Valley are generally low in pH and farmers use lime to adjust the pH of soils and improve growing conditions for crop yields”, said Manjit Randhawa, Environment Manager.

The investigation

The team assessed the idea based on its value and ease of implementation. Investigation began in early September 2017 and involved looking at various studies regarding the use of boiler ash as a soil conditioner to help identify and examine any risks, such as the build-up of potentially harmful chemicals or contamination of soil or water.

A chemical analysis of boiler ash was conducted, identifying all potential nutrients and contaminants. This allowed the team to develop suitable management practices to ensure the beneficial re-use of boiler ash in a way that would minimise any risk of accumulation of environmental contaminants. In early October 2017, Bega Cheese engaged a soil consultant to conduct an assessment and they confirmed a low risk of accumulation or environmental harm.

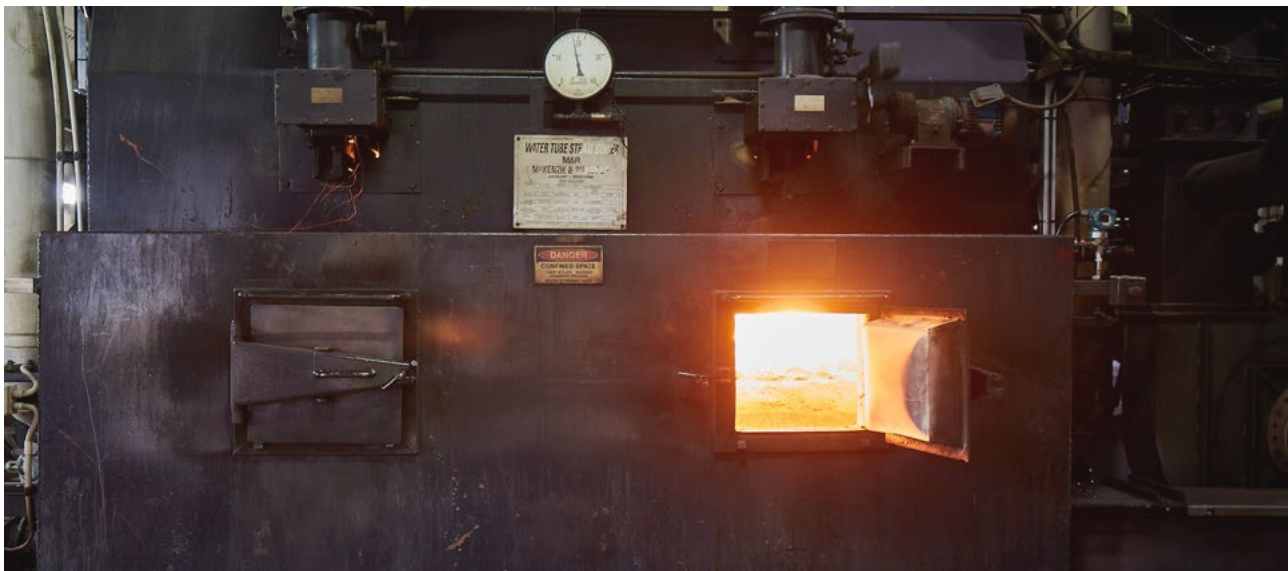
The Environmental Protection Authority NSW (EPA) was also consulted regarding the diversion of material from landfill. The proper characterisation of waste intended for land use is essential for protecting the environment, human health, plus the current and future use of land where re-used waste material is used. In line with the EPA’s ‘Resource Recovery Order’, a sampling plan was developed to identify the characterisation of ash that could be diverted from landfill for re-use.

Trial phase

During October and November 2017, a physical trial was conducted on Bega Cheese owned land. This enabled a check for any adverse impact on land or the surrounding environment. After this trial and the successful characterisation of the ash in line with EPA NSW’s guidance, local farmers were invited to submit an expression of interest. A local farm was then selected for receiving the boiler ash for use under the conditions set out by EPA NSW.

A WIN FOR THE FARM AND THE ENVIRONMENT

The Lagoon Street site is now able to divert 30.8 tonnes of general waste annually from landfill to beneficial re-use. Site costs for waste disposal have also been reduced by \$60,000 through this project.



GLOSSARY

TERMS

ADISF

Australian Dairy Industry Sustainability Framework

APC

Australian Packaging Covenant

EMS

Environmental Management System

EBITDA

Earnings before interest, taxes, depreciation and amortisation

DPI Water IPART NSW

Department of Primary Industries Water Independent Pricing and Regulatory Tribunal

GRI

Global Reporting Initiative

HACCP

Hazard analysis and critical control points

KPI

Key Performance Indicator

TMI

Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese

Scope 1

Greenhouse gas emissions that result directly from onsite activities such as the combustion of fossil fuels

Scope 2

Greenhouse gas emissions that result indirectly from the consumption of electricity generated off-site

UNITS

CO₂e

Carbon dioxide equivalent, a standard unit for measuring carbon. The amount of a greenhouse gas that a business emits is measured as an equivalent amount of carbon dioxide which has a global warming potential of one.

tCO₂e

Tonnes of carbon dioxide equivalent gas

GJ

Gigajoule, equal to one billion (10⁹) joules of energy

GJ/t

Gigajoules per tonne of product

kg

Kilogram, unit of mass equal to 1000 grams

kg/t

Kilograms per tonne of product

kL

Kilolitre, a unit of volume equivalent to 1,000 litres

kL/t

Kilolitre per tonne of product

LTIFR

Lost Time Injury Frequency Rate calculated as the number of lost-time injuries relative to the total number of hours worked during the reporting period

ML

Megalitre, a unit of volume equivalent to 1 million litres

MJ

Megajoule, equal to one million (10⁶) joules of energy

t

Tonnes, unit of mass equal to 1,000 kilograms

TRIFR

Total Recordable Injury Rate calculated as injuries relative to the number of hours worked during the reporting period

GRI CONTENT INDEX

GRI STANDARD	DISCLOSURE ⁶	PAGE NUMBER(S)
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016		
GRI 102: General Disclosures 2016	102-1 Name of the organisation	Page 3
	102-2 Primary brands, products, and services	Pages 13
	102-3 Location of the organisation's headquarters	Page 12
	102-4 Number of countries where the organisation operates	Pages 11-13
	102-5 Nature of ownership and legal form	Page 7
	102-6 Markets served: geographic locations, sectors served, types of customers and beneficiaries	Page 13
	102-7 Scale of the organisation	Pages 7, 11-13, 26
	102-8 Total number of employees by employment contract (permanent and temporary), by gender	Page 26
	102-9 A description of the organisation's supply chain	Pages 14, 21
	102-10 Significant changes to the organisation's size, structure, ownership, or supply chain	Pages 4-5
	102-11 Whether and how the organisation applies the Precautionary Principle or approach	Pages 17
	102-12 A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses	Page 16
	102-13 A list of the main memberships of industry or other associations, and national or international advocacy organisations	Page 17
	102-14 A statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy for addressing sustainability	Pages 4-5
	102-15 A description of key impacts, risks, and opportunities	Pages 16, 14-15, 18-19
	102-16 A description of the organisation's values, principles, standards, and norms of behaviour	Page 8
102-18 Governance structure of the organisation	Page 17	
102-40 A list of stakeholder groups engaged by the organisation	Pages 49-50	
102-41 Percentage of total employees covered by collective bargaining agreements	Page 26	
102-42 The basis for identifying and selecting stakeholders with whom to engage	Page 49	

⁶ Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>

GRI STANDARD	DISCLOSURE ⁷	PAGE NUMBER(S)
GRI 102: General Disclosures 2016		
	102-43 The organisation's approach to stakeholder engagement	Pages 49-50
	102-44 Key topics and concerns raised	Pages 49-50
	102-45 Entities included in the consolidated financial statements	Page 3 See also Annual Report 2018
	102-46 Defining report content and topic boundaries	Pages 16, 19
	102-47 A list of material topics	Pages 18-19
	102-48 Restatements of information	Page 3
	102-49 Changes in reporting	Pages 16, 18
	102-50 Reporting period	Page 3
	102-51 Date of most recent report	Page 3
	102-52 Reporting cycle	Page 3
	102-53 Contact point for questions regarding the report	Page 3
	102-54 Claims of reporting in accordance with the GRI Standards	Page 3
	102-55 GRI content index	Pages 45-48
	102-56 External assurance	Page 3

GRI STANDARD	DISCLOSURE ⁸	PAGE NUMBER(S)
Material Topic – Customer Health and Safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 31
	103-2 The management approach and its components	Page 31
	103-3 Explanation of how the organisation evaluates the management approach	Page 31
GRI 416 Customer Health and Safety 2016	416-2 Incidents of non-compliance concerning the health & safety impacts of products and services	Page 31
Material Topic – Water		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 40
	103-2 The management approach and its components	Page 40
	103-3 Explanation of how the organisation evaluates the management approach	Page 40
GRI 303 Water 2016	303-1 Water withdrawal by source	Page 41
GRI 303 Water 2016	303-3 Water recycled and reused	Page 14, 41

^{7 - 8} Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>

GRI STANDARD	DISCLOSURE ⁸	PAGE NUMBER(S)
Material Topic – Supplier Environmental Assessment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 21-23
	103-2 The management approach and its components	Pages 21-23
	103-3 Explanation of how the organisation evaluates the management approach	Pages 21-23
GRI 308 Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	Information unavailable
Material Topic – Environmental compliance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 34
	103-2 The management approach and its components	Pages 34
	103-3 Explanation of how the organisation evaluates the management approach	Pages 34
GRI 307 Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	Page 34
Material Topic – Energy		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 35-36
	103-2 The management approach and its components	Pages 35-36
	103-3 Explanation of how the organisation evaluates the management approach	Pages 35-36
GRI 302 Energy 2016	302-1 Energy consumption within the organisation	Page 36
GRI 302 Energy 2016	302-3 Energy intensity	Pages 36
Material Topic – Emissions		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 39
	103-2 The management approach and its components	Pages 35, 39
	103-3 Explanation of how the organisation evaluates the management approach	Pages 35, 39
GRI 305 Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Page 39
GRI 305 Emissions 2016	305-2 Energy indirect (Scope 2) GHG emissions	Page 39
GRI 305 Emissions 2016	305-4 GHG emissions intensity	Page 39

⁷⁻⁸ Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>

GRI STANDARD	DISCLOSURE ⁸	PAGE NUMBER(S)
Material Topic – Waste		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 41
	103-2 The management approach and its components	Pages 41
	103-3 Explanation of how the organisation evaluates the management approach	Pages 41
GRI 306 Effluents and waste 2016	306-2 Waste by type and disposal method	Page 42
Material Topic – Occupational Health and Safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Pages 28
	103-2 The management approach and its components	Pages 28-29
	103-3 Explanation of how the organisation evaluates the management approach	Pages 28
GRI 403 Occupational Health and Safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities <i>(Data does not include breakdowns by region or gender)</i>	Pages 29
Material Topic – Animal Welfare		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundaries	Page 24
	103-2 The management approach and its components	Page 24
	103-3 Explanation of how the organisation evaluates the management approach	Page 24

⁷⁻⁸ Disclosure descriptions have been summarised. For detailed descriptions refer to the GRI Standards <https://www.globalreporting.org/standards>

APPENDIX

INVOLVING STAKEHOLDERS

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

Bega Cheese Group pro-actively engages with stakeholders to ensure they have opportunities to participate in key processes and discussions in relation to our sustainability activities. We share a mutual dependency with our stakeholders. This includes our

current business operations, our legal and contractual responsibilities, our impacts, stakeholder influence on activities and our engagement objectives.

Engagement with our community and partners occurs at key milestones – for example, during contract renewals and negotiation of supply and services agreements, and when advising the community of significant activities at operating sites. We did not undertake any dedicated stakeholder engagement in developing this report.

STAKEHOLDERS	INTERESTS	HOW WE ENGAGED IN FY2018
<p>Employees All employees of the Bega Cheese Group and our contractors</p>	<ul style="list-style-type: none"> • Quality, safety, environment improvement • Training and career development • Attracting and retaining talent 	<ul style="list-style-type: none"> • Safety culture survey • Safety briefings and tool box talks • Site consultative forums (including OH&S committees) • Intranet and communication screens • Employee annual performance reviews • Personal development plans • Induction training • Quality refresher training • Key performance indicators
<p>Communities Local communities where the Bega Cheese Group and its suppliers operate including neighbours and local councils</p>	<ul style="list-style-type: none"> • Land management and impacts on water catchments from milk suppliers • Local environmental impacts from manufacturing (e.g. noise and odour) • Regional employment opportunities and support for farming communities 	<ul style="list-style-type: none"> • State and regional business networks • Community interest groups (e.g. Cussen Park, Tatura) • Contribution to local infrastructure (e.g. North Bega sewage system) • Sponsorships and direct donations to charities • Hosting local students to undertake research projects • Direct personal response to issues raised directly by the local community • Flyers and notifications of company activities
<p>Milk suppliers</p>	<ul style="list-style-type: none"> • Developing and maintaining relationships 	<ul style="list-style-type: none"> • Focused topic-specific meetings with farmers (e.g. presentation of soil analysis results and discussions on land management practices) • Quad bike safety training day • Visits and audits on farm • Re-issue of expectation manuals to milk suppliers • Farmer information evenings

STAKEHOLDERS	INTERESTS	HOW WE ENGAGED IN FY2018
Other suppliers and business partners	<ul style="list-style-type: none"> • Developing and maintaining relationships 	<ul style="list-style-type: none"> • Meetings and regular reviews • Supplier visits and audits • Issue management support and troubleshooting
Shareholders Institutional and retail shareholders	<ul style="list-style-type: none"> • Return on investment • Acquisition integration • Growth and strategy • New product development 	<ul style="list-style-type: none"> • Results presentations • ASX announcements and press releases • Annual General Meeting • Road shows • ESG investment surveys
Customers and consumers	<ul style="list-style-type: none"> • Compliance with specifications • Food safety and quality • Profitability 	<ul style="list-style-type: none"> • Responses to questionnaires • Customer visits and audits • Meetings and reviews • Monthly reports
Governments and regulators	<ul style="list-style-type: none"> • Regulatory compliance 	<ul style="list-style-type: none"> • Input to requests for information • Participation in system audits • Strategic meetings with regulators • Dairy Export Industry Consultative Committee • Statutory reporting • Site inspections and audits
Industry associations	<ul style="list-style-type: none"> • Knowledge sharing • Lobbying • Benchmarking 	<ul style="list-style-type: none"> • Dairy Manufacturers Sustainability Council • Australian Dairy Products Federation • Australian Dairy Industry Council • Infant Nutritional Council Board and standing committees • Work groups on specific items and issues • General information days
Certification bodies and NGOs	<ul style="list-style-type: none"> • Compliance with regulations and management systems 	<ul style="list-style-type: none"> • Meetings and reviews • Audits • Australian Packaging Covenant

LOCATIONS

BEGA HEAD OFFICE

and Process, Cut and Packaging Unit
23-45 Ridge Street
North Bega
NSW 2550

BEGA CHEESE DAIRY PRODUCTS UNIT

11-13 Lagoon Street
Bega
NSW 2550

COBURG – DAIRY PRODUCTS UNIT

10-16 Allenby Street
Coburg
VIC 3058

DERRIMUT – CANNING FACILITY

11 Benn Court
Derrimut
VIC 3030

KINGAROY – PEANUT PROCESSING

133 Haly Street,
Kingaroy
QLD 4610

PORT MELBOURNE – COMMERCIAL OFFICE

664 Lorimer Street
Port Melbourne
VIC 3207

PORT MELBOURNE – VEGEMITE WAY

1 Vegemite Way,
Port Melbourne
VIC 3207

STRATHMERTON – PROCESS, CUT AND PACKAGING UNIT

Murray Valley Highway
Strathmerton
VIC 3641

TATURA DAIRY PROCESSING UNIT

236 Hogan Street
Tatura
VIC 3616

TOLGA – PEANUT PROCESSING

12 Tostevin Street,
Tolga
QLD 4882

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