



BEGA CHEESE LIMITED

ANNUAL REPORT

30 June 2009

BEGA CHEESE LIMITED
TRADING AS "BEGA CHEESE"
ABN 81 008 358 503



DIRECTORS

BARRY IRVIN (Chairman)
MAX ROBERTS
RICHARD PARBERY
TOM D'ARCY
RICHARD PLATTS

MANAGEMENT EXECUTIVE TEAM

BARRY IRVIN
Executive Chairman

MICHAEL BYRNES
Chief Executive Officer

MAURICE VAN RYN
General Manager -
Sales & Marketing

COLIN GRIFFIN
Chief Financial Officer /
Bega Franchise Manager /
Company Secretary

MATTHEW FANNING
General Manager -
Human Resources

GRATTAN SMITH
General Manager -
Supply Chain

BUSINESS REVIEW AND DEVELOPMENT GROUP
(In addition to Management Executive Team)

SEAN MORAN
Divisional Manager -
Ridge Street

JOHN HICKS
Divisional Manager -
Manufacturing

GRAHAME HOCKING
Senior Manager -
Sales & Marketing

MICHAEL HAMPSON
Senior Manager - Commercial

ELVIS AMAIR
Senior Manager -
Technical/Environmental Services

BRETT KELLY
Chief Accountant /
Company Secretary

CALVIN MILLER
Divisional Manager -
Strathmerton

KEITH ROSSKELLY
Site Manager - DPU

KEN GARNER
Manager -
Milk Supply & Farm Services

Review of operations and activities

The 2008/2009 financial year has been like no other in the history of Bega Cheese. Major acquisitions, record volumes, the global financial crisis, drought and the continued development of our customer base and product range ensured a challenging but ultimately successful year.

It is important to note that the financial year began with the news that Chief Executive Officer Mick Byrnes was unfortunately diagnosed with cancer which required immediate treatment. The Bega Cheese Board endeavoured to provide support to Mick and his family in every possible way. During Mick's absence from the position of Chief Executive Officer the Board put in place a structure that included myself in the role of Executive Chairman and a number of our executive management team taking on additional responsibilities.

The 2008/2009 year was certainly challenging as the organisation endeavoured to manage one of the most difficult financial environments the world has ever seen while completing two major acquisitions, and dealing with one of the worst droughts in living memory.

The financial performance of the company in the context of the commercial environment we were operating in is certainly pleasing and demonstrates the strength of the Bega Cheese business model. A company profit of \$17.5 million is a sound result in difficult circumstances of the 2008/2009 year and in the context of the global financial crisis compares well to the \$14.1 million profit of the previous year.

The consolidated profit after tax of \$9.3 million includes Bega Cheese's 70% interest in the Tatura Milk Industries Limited ("Tatura Milk") loss of \$4.5 million. The \$4.5 million loss at Tatura Milk can be attributed to the significant exposure that Tatura Milk had to the global dairy commodity price crash. The collapse in dairy pricing globally ultimately resulted in the reduction of up to 50% in returns for some dairy commodities. The Tatura Milk business quickly adjusted to the changed global circumstances, and while the result is disappointing when compared to the \$20.2 million profit after tax of the prior year, the customer base and product mix at Tatura Milk did prove to be very robust with the demand recovering well and some stability returning to the business in the latter part of the financial year.

The circumstances of the industry in 2008/2009 on farm were particularly difficult. The ongoing drought and significant increases in costs saw financial pressures continue to increase on farm throughout the year. The impact of the global financial crisis was unfortunately also felt on farm, a major reduction in dairy pricing forced milk price adjustments by the majority of dairy companies in Australia, including Bega Cheese. There were significant reductions in farm milk pay rates across the industry, with Bega Cheese working hard to minimise the impact to our suppliers. While it was necessary to decrease prices, the final outcome of 50cpl (protein and butterfat equivalent) for our NSW based milk supply and 40cpl (protein and butterfat equivalent) for our Victorian based supply proved to be well above the average returns received on farm in the 2008/2009 year.

Bega Cheese added to its cheese manufacturing network in 2008/2009 with the purchase of cheese manufacturing assets located at Coburg in Melbourne from the De Cicco family. The plant is well located and capable of drawing milk from all the major dairy regions of Victoria. The facilities in Coburg include a modern automatic cheese plant with significant capacity for increased volumes. Bega Cheese completed the purchase on the 31 October 2008.

Despite the difficult circumstances on farm, our supply base proved its resilience and capability with Bega Cheese receiving over 200 million litres of milk across all sites. Our manufacturing facilities at Lagoon Street in Bega and Coburg in Melbourne produced a record 27,700 tonnes of cheese, whey powder and string cheese in the 2008/2009 year.

The processing and packaging infrastructure at Ridge Street Bega also produced record volumes of packaged cheese in 2008/2009. Ridge Street produced 62,300 tonnes of processed and natural cheese in retail ready packs, which saw our facilities stretched to the limits and regularly operating 24 hours a day. The volume growth was attributable to growing demand from Bega Cheese's domestic and international customers and a strong performance from our major customer, Fonterra Brand (Australia).

The Bega Brand's market share grew in 2008/2009 with the brand being clearly the number one cheese brand in the country, during that period. Strong advertising support, a new marketing campaign and the long term brand presence and awareness all contributed to one of the best years in the brand's history.

The continued growth of Bega Cheese's cutting and packaging business clearly required an increase in available capacities in order to meet ongoing customer requirements. The opportunity to purchase a substantial processed cheese facility at Strathmerton, Victoria, fitted well with our overall strategic objectives.

Review of operations and activities (cont.)

The high quality infrastructure, a long term supply agreement with Kraft and available capacities at the Strathmerton facility positions Bega Cheese well to be the premier supplier of natural and processed cheese in Australia. Bega Cheese settled the purchase of the Strathmerton facility on the 13 March 2009.

The Bega Cheese group took another major step forward in 2008/2009. The acquisition of assets at Coburg and Strathmerton combined with the existing capabilities at Bega Cheese and Tatura Milk Industries see the business well placed to meet the value added needs of its dairy customers no matter where they are in the world. The growth of Tatura Milk's infant formula and cream cheese business in 2008/2009 is reflective of the overall group strategy to move the business away from commodity products and to more high volume customer specific products.

Whilst the year for Tatura Milk was a difficult one, the business was able to mitigate some of the impact relating to the global commodity price collapse. Whilst total revenues were down some \$32 million, there was significant growth in key areas at Tatura Milk, particularly infant formula. Major reductions in revenue were primarily attributable to the commodity exposed products, skim milk powder, whole milk powder and milk protein concentrate. The focused management of inventory and long term customer relationships were key to minimising the loss at Tatura Milk.

Rationalisation in the Australian dairy industry continued in 2008/2009 with National Foods successfully acquiring Dairy Farmers. A consequence of this takeover was that National Foods became Bega Cheese's new partner in our joint venture Capitol Chilled Foods (Australia). Whilst there were some changes on the Capitol Chilled Foods (Australia) Board the business continued uninterrupted. Long term managing director Gary Sykes continues to guide the business well with the financial performance and profitability of the joint venture continuing to deliver good cash flows and profits.

The 2008/2009 year I am sure will be of historic significance to all involved with Bega Cheese. The group now operates from five strategically located sites, has a product range which includes processed and natural cheese, cream cheese, whey, skim and whole milk powder, infant formula and nutritionals, and a global customer base. The group exports to over 50 countries around the world and has long term contractual arrangements with global dairy companies Fonterra, Kraft Foods and Mead Johnson.

All of the above would not be possible without an extraordinarily dedicated staff. That dedication was never better demonstrated than Mick Byrnes' participation in the business whenever he was able throughout the year. Mick continued to contribute whenever his health would allow and in the latter part of the financial year resumed responsibility for many of the operational aspects of the business.

Bega Cheese has an expanding group of executives and managers whose contributions have made a significant difference in such a challenging year. I would like to personally acknowledge Colin Griffin and Maurice Van Ryn, my long term trusted colleagues who once again proved their significant value to the business this year. The other members of the senior executive team, Grattan Smith and Matt Fanning and the Business Review and Development Group of Brett Kelly, Elvis Amair, Grahame Hocking, John Hicks, Michael Hampson, Sean Moran, Ken Garner, Keith Ross Kelly, and Calvin Miller, who worked as a team to ensure our business vision became a business reality.

There were many occasions when we had to ask all our staff at Bega Cheese to "go that extra mile" for us and I would like to thank all of them for their efforts.

In years of challenge and opportunity true leadership, stewardship and core values shine through. The contribution of my fellow Board members has been significant in the 2008/2009 year, and I would like to thank them for their guidance, support and considered responses as the company strove to achieve its objectives in 2008/2009.

The confidence to move forward and take opportunities comes from a combination of things not the least of which is the knowledge that your shareholders will give you their support. On behalf of myself, the Board and staff at Bega Cheese I would like to thank shareholders for their ongoing support.

Bega Cheese will continue to grow, continue to endeavour to perform in the top echelons of dairy companies and ensure that we meet and exceed the expectations of our customers, shareholders, and staff as we work together to take our dairy products to the world.



Barry Irvin
Executive Chairman
14 October 2009

Directors' report

Your Directors present the annual financial report of Bega Cheese Limited ("Bega Cheese") for the year ended 30 June 2009.

Directors

The following persons held office as Directors during and since the financial year:

Barry Andrew Irvin
Executive Chairman
Dairy farmer
Director since September, 1989

Thomas Michael D'Arcy
Dairy farmer
Director since April, 1998

Maxwell John Roberts
Deputy Chairman
Dairy farmer
Director since September, 1983

Richard Ellwyn Platts
Dairy farmer
Director since November, 2000

Richard Charles Parbery
Deputy Chairman
Dairy farmer and accountant
Director since September, 1988

Principal activities

The principal activity of Bega Cheese in the course of the financial year was receiving, processing, manufacturing and distributing dairy and associated products. Bega Cheese continued to monitor its investment in Tatura Milk Industries Limited ("Tatura Milk"). In addition, Bega Cheese acquired a cheese manufacturing plant at Coburg, Victoria and a processed cheese plant at Strathmerton, Victoria. A number of key issues in relation to the activities of Bega Cheese during the year ended 30 June 2009 are set out in the Executive Chairman's Review of Operations and Activities, which is to be read in conjunction with this Directors' report.

Result for the period

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Profit attributable to shareholders after Regional Milk Price Premium and income tax and before payment of dividends	<u>9,330,127</u>	<u>33,909,341</u>	<u>17,477,115</u>	<u>14,087,357</u>

Dividends

In respect of the financial year ended 30 June 2009 the Directors have recommended the payment of an ordinary partially franked dividend of 7 cents per share (2008 - 10 cents per share), which will represent distributions in the order of \$1,737,106 (2008 - \$2,479,405).

Review of operations

A comprehensive review of operations is set out in the Executive Chairman's Review of Operations and Activities.

Changes in state of affairs

Other than disclosed in the Executive Chairman's Review of Operations and Activities, there have been no significant changes in the state of affairs of Bega Cheese since the last Annual Report.

Indemnification of officers and auditors

During the financial year, Bega Cheese paid a premium in respect of a contract insuring the Directors (as named above) and all executive officers of Bega Cheese and of any related body corporate against a liability incurred as such a Director or executive officer not exceeding the extent permitted by law. The contracts of insurance prohibit disclosure of the nature of the liabilities and the amount of the premiums. The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against a liability incurred as such an officer or auditor.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future years.

Directors' report (cont.)

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The operations of Bega Cheese are subject to environmental legislation and regulations. The Environmental Management Committee continues to manage this important area. During the financial year, this committee made steady progress, working with the Department of Environment and Climate Change, to ensure that Bega Cheese meets its obligations, including completion of a major wet weather storage dam. As a result, the Directors believe there is no significant exposure on environmental issues.

Meetings of Directors and Board committees

The following table sets out the number of Board, Finance Committee and Communications Committee meetings held during the year ended 30 June 2009 and the number of meetings attended by each eligible Director and other members:

	Meetings of Board of Directors	
	Held and Eligible	Attended
Barry Irvin	23	23
Max Roberts	23	22
Richard Parbery	23	23
Tom D'Arcy	23	22
Richard Platts	23	23

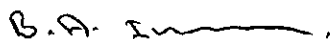
Max Roberts and Tom D'Arcy gave apologies in advance of the meetings they were unable to attend.

	Finance Committee	
	Held and Eligible	Attended
Richard Parbery - Director	12	12
Tom D'Arcy - Director	12	12
Brett Kelly - Chief Accountant / Company Secretary	12	9
Michael Hampson - Senior Manager - Commercial	12	2
Michelle Sonnenschein - Manager - PPU Finance	12	4
Jane Grose - Group Accountant	12	9

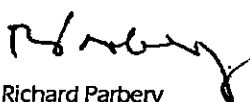
Brett Kelly, Michael Hampson, Michelle Sonnenschein and Jane Grose gave apologies in advance of the meetings they were unable to attend.

	Communications Committee	
	Held and Eligible	Attended
Max Roberts - Director	4	4
Richard Platts - Director	4	4
Ken Garner - Manager - Milk Supply & Farm Services	4	4

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



Barry Irvin
Executive Chairman



Richard Parbery
Deputy Chairman

Bega, NSW
14 October 2009



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Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A stylized, handwritten-style signature of the PricewaterhouseCoopers firm name.

PricewaterhouseCoopers

A handwritten signature of P.J. Carney.

P J Carney
Partner

Sydney
14 October 2009



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Independent auditor's report to the Shareholders of Bega Cheese Limited

Report on the financial report

We have audited the accompanying financial report of Bega Cheese Limited (the company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both Bega Cheese Limited and the Bega Cheese Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the information in the Directors' report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Bega Cheese Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.



PricewaterhouseCoopers



P J Carney
Partner

Sydney
14 October 2009

Directors' declaration

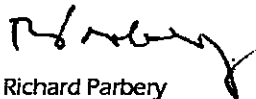
In the Directors' opinion:

- a. the financial statements and notes set out on pages 10 to 45 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the company's and group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

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



Barry Irvin
Executive Chairman



Richard Parbery
Deputy Chairman

Bega, NSW
14 October 2009

Income statements for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Revenue from continuing operations	3	797,939,424	696,618,657	503,695,268	377,641,597
Cost of sales		(727,345,943)	(613,620,914)	(456,673,975)	(340,529,480)
Gross profit		70,593,481	82,997,743	47,021,293	37,112,117
Other income	3	10,628,127	6,223,164	14,471,125	7,022,099
Distribution expense		(23,139,950)	(18,249,105)	(13,375,834)	(11,188,500)
Marketing expense		(7,509,229)	(5,961,326)	(6,255,811)	(4,337,845)
Occupancy expense		(2,878,470)	(1,630,540)	(1,804,384)	(1,161,053)
Administration expense		(19,997,522)	(19,825,402)	(7,869,705)	(6,304,485)
Finance costs	4	(9,036,184)	(6,868,134)	(4,467,205)	(1,753,422)
Impairment of goodwill	12	(3,614,931)	-	(3,614,931)	-
Discount on acquisition of business	26	8,730,392	-	8,730,392	-
Profit before regional milk price premium		23,775,714	36,686,400	32,834,940	19,388,911
Regional milk price premium		(11,770,710)	-	(11,770,710)	-
Profit before income tax		12,005,004	36,686,400	21,064,230	19,388,911
Income tax expense	5	(2,674,877)	(2,777,059)	(3,587,115)	(5,301,554)
Profit for the year		9,330,127	33,909,341	17,477,115	14,087,357
Profit is attributable to:					
Equity holders of the Bega Cheese Limited		10,670,883	27,842,858	17,477,115	14,087,357
Minority interest		(1,340,756)	6,066,483	-	-
		9,330,127	33,909,341	17,477,115	14,087,357

The above income statements should be read in conjunction with the accompanying notes.

Balance sheets as at 30 June 2009

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
ASSETS					
Current assets					
Cash and cash equivalents	30	21,963,081	11,416,009	15,671,086	8,626,688
Trade and other receivables	6	99,561,867	79,381,244	51,702,475	35,173,099
Other financial assets	7	5,038,963	6,473,769	1,578,337	537,012
Inventories	8	104,057,845	111,439,657	68,594,828	46,450,586
Non-current assets classified as held for sale	9	392,626	-	392,626	-
Total current assets		<u>231,014,382</u>	<u>208,710,679</u>	<u>137,939,352</u>	<u>90,787,385</u>
Non-current assets					
Other financial assets	10	12,733	827,234	37,200,501	38,015,002
Property, plant and equipment	11	194,238,717	118,995,304	126,968,119	53,980,772
Deferred tax assets	5	13,743,299	13,432,074	2,428,939	3,772,790
Intangible assets	12	2,169,640	404,640	2,169,640	404,640
Total non-current assets		<u>210,164,389</u>	<u>133,659,252</u>	<u>168,767,199</u>	<u>96,173,204</u>
Total assets		<u>441,178,771</u>	<u>342,369,931</u>	<u>306,706,551</u>	<u>186,960,589</u>
LIABILITIES					
Current liabilities					
Trade and other payables	13	88,241,995	100,852,966	63,236,681	57,678,243
Borrowings	14	77,670,395	31,530,739	40,980,057	9,500,000
Current tax liabilities		715,789	-	715,789	-
Provisions	15	11,018,549	7,802,807	5,916,995	3,059,294
Total current liabilities		<u>177,646,728</u>	<u>140,186,512</u>	<u>110,849,522</u>	<u>70,237,537</u>
Non-current liabilities					
Trade and other payables	16	668,235	450,000	368,235	5,259,688
Borrowings	17	88,738,556	27,735,129	77,260,114	9,000,000
Provisions	18	4,391,286	2,915,384	3,953,551	2,521,153
Total non-current liabilities		<u>93,798,077</u>	<u>31,100,513</u>	<u>81,581,900</u>	<u>16,780,841</u>
Total liabilities		<u>271,444,805</u>	<u>171,287,025</u>	<u>192,431,422</u>	<u>87,018,378</u>
Net assets		<u>169,733,966</u>	<u>171,082,906</u>	<u>114,275,129</u>	<u>99,942,211</u>
EQUITY					
Contributed equity	19	24,809,805	24,795,805	24,809,805	24,795,805
Reserves	20	40,964,297	43,500,351	31,884,390	32,563,182
Retained profits	20	69,846,638	61,655,160	57,580,934	42,583,224
Capital and reserves attributable to equity holders of Bega Cheese Limited		<u>135,620,740</u>	<u>129,951,316</u>	<u>114,275,129</u>	<u>99,942,211</u>
Minority interest		<u>34,113,226</u>	<u>41,131,590</u>	-	-
Total equity		<u>169,733,966</u>	<u>171,082,906</u>	<u>114,275,129</u>	<u>99,942,211</u>

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2009

		Contributed Equity	Capital Profits Reserve	Hedging Reserve	Retained Earnings	Total
Consolidated	Notes	\$	\$	\$	\$	\$
Balance as at 1 July 2007		22,402,838	40,626,398	1,407,889	35,587,203	100,024,328
Profit for the year		-	-	-	27,842,858	27,842,858
Revaluation of fair value derivatives		-	-	2,081,336	-	2,081,336
Total recognised income and expense for the year		-	-	2,081,336	27,842,858	29,924,194
Subscribed by members		26,000	-	-	-	26,000
Purchased back from former members		(219,080)	-	-	-	(219,080)
Purchased by qualifying ex-members		2,586,047	-	-	-	2,586,047
Dividend provided for or paid		-	9,129	-	(1,774,901)	(1,765,772)
Transactions relating to the minority interest		-	-	(624,401)	-	(624,401)
Balance as at 30 June 2008		24,795,805	40,635,527	2,864,824	61,655,160	129,951,316
Balance as at 1 July 2008		24,795,805	40,635,527	2,864,824	61,655,160	129,951,316
Profit for the year		-	-	-	10,670,883	10,670,883
Revaluation of fair value derivatives		-	-	(3,332,023)	-	(3,332,023)
Total recognised income and expense for the year		-	-	(3,332,023)	10,670,883	7,338,860
Subscribed by members		14,000	-	-	-	14,000
Dividend provided for or paid		-	-	-	(2,479,405)	(2,479,405)
Transactions relating to the minority interest		-	-	795,969	-	795,969
Balance as at 30 June 2009		24,809,805	40,635,527	328,770	69,846,638	135,620,740

		Contributed Equity	Capital Profits Reserve	Hedging Reserve	Retained Earnings	Total
Company	Notes	\$	\$	\$	\$	\$
Balance as at 1 July 2007		22,402,838	32,563,182	-	30,270,768	85,236,788
Profit for the year		-	-	-	14,087,357	14,087,357
Total recognised income and expense for the year		-	-	-	14,087,357	14,087,357
Subscribed by members		26,000	-	-	-	26,000
Purchased back from former members		(219,080)	-	-	-	(219,080)
Purchased by qualifying ex-members		2,586,047	-	-	-	2,586,047
Dividend provided for or paid		-	-	-	(1,774,901)	(1,774,901)
Balance as at 30 June 2008		24,795,805	32,563,182	-	42,583,224	99,942,211
Balance as at 1 July 2008		24,795,805	32,563,182	-	42,583,224	99,942,211
Profit for the year		-	-	-	17,477,115	17,477,115
Revaluation of fair value derivatives		-	-	(678,792)	-	(678,792)
Total recognised income and expense for the year		-	-	(678,792)	17,477,115	16,798,323
Subscribed by members		14,000	-	-	-	14,000
Dividend provided for or paid		-	-	-	(2,479,405)	(2,479,405)
Balance as at 30 June 2009		24,809,805	32,563,182	(678,792)	57,580,934	114,275,129

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers					
inclusive of goods and services tax		808,696,905	678,981,239	513,379,086	389,053,393
Payments to suppliers and employees					
inclusive of goods and services tax		(777,331,201)	(669,239,755)	(498,495,010)	(391,134,299)
Co-operative premium paid		(11,770,710)	-	(11,770,710)	-
Interest and other costs of financing paid		(7,429,567)	(3,184,762)	(3,815,836)	(684,499)
Net cash inflow/(outflow) from operating activities	30	<u>12,165,427</u>	<u>6,556,722</u>	<u>(702,470)</u>	<u>(2,765,405)</u>
Cash flows from investing activities					
Interest received		498,869	923,329	231,487	458,080
Dividend received		664,261	802	4,340,789	-
Payments for business combinations	26	(81,902,072)	-	(81,902,072)	-
Payments for property, plant and equipment		(19,625,413)	(8,997,475)	(10,314,362)	(5,656,315)
Payments for shares in unlisted companies	13	-	-	(5,000,000)	(3,635,865)
Proceeds from sale of property, plant and equipment		801,700	2,838,986	26,310	47,300
Proceeds from sale of shares in listed companies		3,330,121	248,213	3,330,121	-
Net cash inflow/(outflow) from investing activities		<u>(96,232,534)</u>	<u>(4,986,145)</u>	<u>(89,287,727)</u>	<u>(8,786,800)</u>
Cash flows from financing activities					
Proceeds from borrowings		114,700,000	20,000,000	99,500,000	14,500,000
Loans repaid by/(made to) minority interests		(4,051,310)	12,177,219	-	-
Repayment of borrowings		(7,098,393)	(10,410,836)	-	-
Repayment of leases		(908,150)	(2,096,462)	-	-
Share capital subscribed by members		14,000	2,612,047	14,000	2,612,047
Share capital purchased back from former members		-	(219,080)	-	(219,080)
Share capital purchased back from minority interests		(985,157)	(1,083,205)	-	-
Dividends paid to members		(2,479,405)	(1,774,901)	(2,479,405)	(1,774,901)
Dividends paid to minority interests		(4,577,406)	(19,596,924)	-	-
Net cash inflow/(outflow) from financing activities		<u>94,614,179</u>	<u>(392,142)</u>	<u>97,034,595</u>	<u>15,118,066</u>
Net increase/(decrease) in cash and cash equivalents		10,547,072	1,178,435	7,044,398	3,565,861
Cash and cash equivalents at the beginning of the year		11,416,009	10,237,574	8,626,688	5,060,827
Cash and cash equivalents at the end of the year	30	<u><u>21,963,081</u></u>	<u><u>11,416,009</u></u>	<u><u>15,671,086</u></u>	<u><u>8,626,688</u></u>

The financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Bega Cheese Limited as an individual entity and the Group consisting of Bega Cheese Limited and its subsidiaries. Bega Cheese Limited is domiciled in New South Wales. The address of the registered office is 23-45 Ridge Street Bega New South Wales.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

At 30 June 2009 Tatura Milk Industries Limited ("Tatura"), a subsidiary of Bega Cheese, has a material debt facility due for renegotiation within 12 months from the date of signing the financial reports. The facility, a \$45.0 million facility of which \$31.7 million has been drawn down at year end, is due for renewal on 31 December 2009. This debt is currently disclosed as current in accordance with the relevant accounting standards. It is the Tatura Board's intention to renegotiate the facility for a further 12 months such that the full amount does not fall payable on 31 December 2009.

Having reviewed and considered the banking arrangements, forecast profitability and cash flows and considering the strength of the entity's relationship with the financial institution the directors and management have formed the view that Tatura will continue as a going concern from the date of this report and consequently will realise its assets and extinguish its liabilities in the normal course of business at the amounts included in the consolidated financial report. The financial report for the Group has therefore been prepared on a going concern basis.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Bega Cheese Limited complies with International Financial Reporting

Early adoption of standards

The Group has elected to apply AASBB "Operating Segments" to the annual reporting period beginning 1 July 2007. The effect of early adoption is that segment information has been removed from the financial statements for the current and prior years.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. There are no areas involving a high degree of judgement or complexity. Areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes;

- Note 8. Inventories
- Note 10. Non-current assets - Other financial assets
- Note 12. Non-current assets - Intangible assets

(b) Principles of consolidation

Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 29.

Joint venture entities

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the proportionate consolidation method. Under proportionate consolidation the share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the financial statements. Details relating to the partnership are set out in note 29.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese Limited ("Company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Bega Cheese Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statements. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statements and balance sheets respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Bega Cheese Limited.

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non monetary financial assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

(d) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

Sale of goods and disposal of assets

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

Royalties

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

Rental revenue

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

Interest income

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

Dividends

Dividend revenue is recognised on a receivable basis.

(e) Government grants

Government grants are assistance by the government in the form of transfers or resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

(f) Income tax

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

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

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 11). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

(h) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, plus any costs attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(i) Impairment of assets

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit). The reversal of an impairment loss is recognised immediately in income unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(k) Trade receivables

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re evaluates this designation at each reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(m) Investments and other financial assets (cont.)

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non current assets. Loans and receivables are included in trade and other receivables (note 6) in the balance sheet.

Available for sale financial assets

Certain shares held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in note 2. Gains and losses arising from changes in fair value are recognised directly in reserves with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

(n) Derivatives and hedging activities

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 2. Movements in the hedging reserve in shareholders' equity are shown in note 20. The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

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

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

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

Fair value hedge

Change in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(o) **Property, plant and equipment**

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

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

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

- Buildings	20 - 40 years
- Plant and equipment	5 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) **Intangible assets**

Brand names

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's and company's share of the net identifiable assets at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(q) **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(s) **Borrowing costs**

Borrowing costs are expensed as incurred.

(t) **Provisions**

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

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

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

(u) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations

Contributions to the defined contribution fund are recognised as an expense as they become payable.

(v) Contributed equity

Ordinary shares are classified as equity.

Up until 23 April 2008, members of Bega Cheese recognised their shares under The Bega Co operative Society Limited structure as equity in accordance with the ordinary meaning of co operatives in Australia. In the financial statements for the year ended 30 June 2007, members' shares were classified as a liability in accordance with A IFRS. After the restructure on 23 April 2008, members' shares are classified as equity in the financial statements.

(w) Dividends

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

(x) Research and development costs

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

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

i Revised AASB 101 Presentation of Financial Statements and AASB 2007 8 Amendments to Australian Accounting Standards arising from AASB 101.

A revised AASB 101 was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

ii Revised AASB 123 Borrowing Costs and AASB 2007 6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12].

(z) New accounting standards and interpretations (cont.)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and when adopted will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Going forward there will be no impact on the financial reports of the Group and Company, as the Group and Company already capitalise borrowing costs relating to qualifying assets.

iii Revised AASB 101 Presentation of Financial Statements and AASB 2007 8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group and Company intends to apply the revised standard from 1 July 2009.

2. Financial Risk Management

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

Risk management is overseen by the Finance Committee under policies approved by the Board of Directors and carried out by the Chief Accountant. This officer identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group and the Company held the following financial instruments:

	Consolidated		Company	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	21,963,081	11,416,009	15,671,086	8,626,688
Trade and other receivables	99,561,867	79,381,244	51,702,475	35,173,099
Financial assets at fair value through profit and loss	12,733	827,234	22	814,523
Derivative financial instruments	5,038,963	6,473,769	1,578,337	537,012
Available for sale financial assets	159,626	-	159,626	-
Held to maturity investments	-	-	37,200,479	37,200,479
	<u>126,736,270</u>	<u>98,098,256</u>	<u>106,312,025</u>	<u>82,351,801</u>
Financial Liabilities				
Trade and other payables	86,238,490	100,765,954	60,933,176	62,400,919
Borrowings	166,408,951	59,265,868	118,240,171	18,500,000
Derivative financial instruments	2,671,740	537,012	2,671,740	537,012
	<u>255,319,181</u>	<u>160,568,834</u>	<u>181,845,087</u>	<u>81,437,931</u>

2. Financial Risk Management (cont.)

(a) Market Risk

i) Foreign exchange risk

The Group and company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's policy is to hedge either all foreign currency confirmed orders or 30-80% of its estimated foreign currency exposures in respect of forecast sales over the subsequent 12 months. At year end, the following foreign exchange contracts were held, presented in Australian dollars:

	Consolidated		Company	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Contracts to sell USD - gross amount	74,178,412	108,231,041	12,735,189	8,879,526
Contracts to buy USD - gross amount	1,274,004	1,472,149	-	1,472,149
Contracts to sell Yen - gross amount	-	22,469,426	-	-
Analysis as at 30 June 2009				
	Less than 3 months	Between 3 and 6 months	Longer than 6 months	Total Contracts
Consolidated				
Contracts to sell USD				
Principal	72,467,945	1,421,205	289,262	74,178,412
Average exchange rate	0.77	0.77	0.79	0.77
Company				
Contracts to sell USD				
Principal	11,024,722	1,421,205	289,262	12,735,189
Average exchange rate	0.70	0.77	0.71	0.71
Analysis as at 30 June 2008				
Consolidated				
Contracts to sell USD				
Principal	22,536,496	74,754,823	10,939,722	108,231,041
Average exchange rate	0.84	0.91	0.91	0.89
Contracts to buy USD				
Principal	1,472,149	-	-	1,472,149
Average exchange rate	0.87	-	-	0.87
Contracts to sell JPY				
Principal	12,332,753	10,136,673	-	22,469,426
Average exchange rate	88.48	89.77	-	89.06
Company				
Contracts to sell USD				
Principal	6,725,241	2,154,284	-	8,879,525
Average exchange rate	0.89	0.92	-	0.90
Contracts to buy USD				
Principal	1,472,149	-	-	1,472,149
Average exchange rate	0.87	-	-	0.87

2. Financial Risk Management (cont.)

Exposure to foreign currency risk:

The Group's exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	Consolidated		Company	
	30 June 2009 \$	30 June 2008 \$	30 June 2009 \$	30 June 2008 \$
AUD Balances				
Receivables - Trade debtors	20,672,518	24,923,245	3,765,734	4,371,180
Cash flow hedges				
- Foreign currency inflows	61,443,233	115,095,700	-	-
- Foreign currency outflows	(58,162,263)	(108,337,227)	-	-
Fair value hedges				
- Foreign currency inflows	8,969,455	4,508,345	8,969,455	4,508,345
- Foreign currency outflows	(12,735,189)	(8,879,525)	(12,735,189)	(8,879,525)
Net exposure	<u>20,187,754</u>	<u>27,310,538</u>	<u>-</u>	<u>-</u>
Japanese Yen balances				
Receivables - Trade debtors	-	5,467,331	-	-
Sell f Maturing in less than 3 months	-	(22,469,426)	-	-
Net exposure	<u>-</u>	<u>(17,002,095)</u>	<u>-</u>	<u>-</u>

Group and Company sensitivity

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There is no affect on profit or loss.

	Consolidated		Company	
	30 June 2009 \$ Equity	30 June 2008 \$ Equity	30 June 2009 \$ Equity	30 June 2008 \$ Equity
USD Balances	2,613,915	3,102,842	-	-
Yen Balances	-	675,256	-	-

2. Financial Risk Management (cont.)

A 10 per cent weakening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There is no affect on profit or loss.

	Consolidated		Company	
	30 June 2009 \$ Equity	30 June 2008 \$ Equity	30 June 2009 \$ Equity	30 June 2008 \$ Equity
USD Balances	(3,194,785)	(5,417,662)	-	-
Yen Balances	-	(1,179,019)	-	-

ii) Interest rate risk

The Group and the parent entity are exposed to price risk. This arises from investments held by the Group and classified on the balance sheet either as available for sale or at fair value through profit or loss.

To manage its price risk arising from investments in equity securities, the Group selects its portfolio to match business synergies and limits its exposure by agreeing all investments at the board level.

The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity except for the factors disclosed in note 10. No statistical analysis is performed as the investment is evaluated on criteria other than financial ones.

As at the reporting date, the Group and Company had the following variable rate borrowings and interest rate swap contracts outstanding:

	Consolidated		Company	
	Average Interest Rate %	30 June 2009 \$	Average Interest Rate %	30 June 2009 \$
Bank overdrafts and bank loans	5.1	192,933,652	5.1	147,000,000
Less loans at fixed rates	8.0	(14,233,652)		
Bank overdrafts and bank loans At variable rates	5.1	178,700,000	5.1	147,000,000
Less interest rate swaps (notional principal amount)	6.8	(29,000,000)	6.8	(29,000,000)
Net Exposure to cash flow interest rate risk	4.5	149,700,000	4.7	118,000,000

	Consolidated		Company	
	Average Interest Rate %	30 June 2008 \$	Average Interest Rate %	30 June 2008 \$
Bank overdrafts and bank loans	8.1	56,332,045	8.6	18,500,000
Less loans at fixed rates	8.0	(21,332,045)	-	-
Bank overdrafts and bank loans At variable rates	8.2	35,000,000	8.6	18,500,000
Less interest rate swaps (notional principal amount)	7.4	(9,000,000)	7.4	(9,000,000)
Net Exposure to cash flow interest rate risk	8.0	26,000,000	8.3	9,500,000

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

The Group and the Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration such as refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

2. Financial Risk Management (cont.)

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

Group sensitivity

At 30 June 2008, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post tax profit for the year and equity would have been affected as follows, mainly as a result of higher/lower interest charges from borrowing equivalents.

	Consolidated		Company	
	30 June 2009 \$ Equity	30 June 2008 \$ Equity	30 June 2009 \$ Equity	30 June 2008 \$ Equity
100 basis points increase	(255,000)	-	(255,000)	-
100 basis points decrease	255,000	-	255,000	-
	Profit or loss	Profit or loss	Profit or loss	Profit or loss
100 basis points increase	(1,146,900)	(157,644)	(925,000)	(42,144)
100 basis points decrease	1,146,900	157,644	925,000	42,144

iii) Commodity Price Risk

The Group is exposed to commodity price risk in the global market for dairy products. Strategies to manage the risk include;

- a proactive review of prices to secure forward supply at favourable rates;
- a committee to oversee cheese purchases to take advantage of market conditions;
- selling contracts based on input prices that track commodity levels

Group and Company sensitivity

Due to the complex nature of the commodity supply and demand of the Group, a sensitivity analysis is not possible. Whilst rising commodity prices increase the input cost of whey, milk, curd and cheese, it enables these price increases to be passed on to customers, albeit with some time delay. The Company experiences similar sensitivity issues.

b) Credit Risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 6. For customers, the Group generally retains title over the goods sold until full payment is received. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. In addition, the Company obtains insurance over all export debtors and some Australian customers.

2. Financial Risk Management (cont.)

Financial risk management

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to amounts past due at the reporting date.

	Consolidated		Company	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Trade receivables	\$	\$	\$	\$
Not past due	65,125,386	61,520,953	31,475,455	29,731,169
Due 0-30 days	11,677,495	7,028,001	7,525,719	1,905,690
Due 30-120 days	4,236,723	290,315	3,197,346	5,654
Due over 120 days	104,417	2,237	107,340	2,341
Trade receivables as at 30 June	<u>81,144,021</u>	<u>68,841,506</u>	<u>42,305,860</u>	<u>31,644,854</u>

A provision of \$310,964 (2008: \$195,444) has been established against gross debtors of \$404,352 (2008: \$261,027).

All impaired balances are more than 60 days overdue.

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

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Finance aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in term deposits with credit ratings of at least "AA".

Financing arrangements

The Group and the Company had access to the following un-drawn borrowing facilities at the reporting date:

	Consolidated		Company	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Expiring within one year (overdraft and bill facility)	37,300,000	11,500,000	24,000,000	11,500,000
Expiring beyond one year (bank loans)	34,706,457	42,746,692	400,000	13,000,000
Total undrawn facilities	<u>72,006,457</u>	<u>54,246,692</u>	<u>24,400,000</u>	<u>24,500,000</u>

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The bill facility may be drawn at any time and is subject to annual review. Subject to the compliance with covenants, the bank loan facilities may be drawn at any time.

Maturities of financial liabilities

The tables below analyse the Group and the Company's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

2. Financial Risk Management (cont.)

Group At 30 June 2009	Less than one year	Between 1 - 2 years	Between 2 - 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Non-derivative financial liabilities					
Finance leases	(988,207)	(988,207)	(761,170)	(2,737,584)	(2,475,299)
Secured bank loans	(81,410,191)	(18,995,370)	(83,612,081)	(184,017,642)	(163,933,652)
Trade and other payables	(86,320,828)	(150,000)	(150,000)	(86,620,828)	(85,938,490)
Total non derivatives	(168,719,226)	(20,133,577)	(84,523,251)	(273,376,054)	(252,347,441)
Derivative financial liabilities	(869,152)	(338,138)	(694,613)	(1,901,903)	-
Forward contracts					
- Hedge outflows	(50,536,386)	-	-	(50,536,386)	(50,536,386)
- Hedge inflows	55,666,039	1,421,205	289,262	57,376,506	57,376,506
Total derivatives	4,260,501	1,083,067	(405,351)	6,840,120	6,840,120
Net total	(164,458,725)	(19,050,510)	(84,928,602)	(268,437,837)	(245,507,321)

Group At 30 June 2008	Less than one year	Between 1 - 2 years	Between 2 - 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Non-derivative financial liabilities					
Finance leases	(908,150)	(908,150)	(1,589,263)	(3,405,563)	(2,933,823)
Secured bank loans	(34,363,287)	(6,342,403)	(23,072,908)	(63,778,598)	(56,332,045)
Trade and other payables	(95,736,262)	(6,000,000)	-	(101,736,262)	(100,315,954)
Total non derivatives	(131,007,699)	(13,250,553)	(24,662,171)	(168,920,423)	(159,581,822)
Derivative financial liabilities					
Forward contracts					
- Hedge outflows	(148,645)	-	-	(148,645)	(148,645)
- Hedge inflows	6,622,414	-	-	6,622,414	6,622,414
Total derivatives	6,473,769	-	-	6,473,769	6,473,769
Net total	(124,533,930)	(13,250,553)	(24,662,171)	(162,446,654)	(153,108,053)

2. Financial Risk Management (cont.)

Company At 30 June 2009	Less than one year	Between 1 - 2 years	Between 2 - 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Non-derivative financial liabilities					
Finance leases	(80,057)	(80,057)	(80,057)	(240,171)	(240,171)
Secured bank loans	(45,147,470)	(15,062,004)	(79,560,471)	(139,769,945)	(118,000,000)
Trade and other payables	(54,933,176)	-	-	(54,933,176)	(55,315,514)
Total non derivatives	(100,160,703)	(15,142,061)	(79,640,528)	(194,943,292)	(173,555,685)
Derivative financial liabilities	(869,152)	(338,138)	(694,613)	(1,901,903)	-
Forward contracts					
- Hedge outflows	(9,460,573)	-	-	(9,460,573)	(9,460,573)
- Hedge inflows	11,129,600	1,421,205	289,262	12,840,067	12,840,067
Total derivatives	799,875	1,083,067	(405,351)	1,477,591	3,379,494
Net total	(99,360,828)	(14,058,994)	(80,045,879)	(193,465,701)	(170,176,191)
Company At 30 June 2008					
Non-derivative financial liabilities					
Secured bank loans	(10,180,675)	(664,650)	(9,664,650)	(20,509,975)	(18,500,000)
Trade and other payables	(57,464,181)	(6,000,000)	-	(63,464,181)	(62,400,919)
Total non derivatives	(67,644,856)	(6,664,650)	(9,664,650)	(83,974,156)	(80,900,919)
Derivative financial liabilities					
Forward contracts					
- Hedge outflows	(148,645)	-	-	(148,645)	(148,645)
- Hedge inflows	685,657	-	-	685,657	685,657
Total derivatives	537,012	-	-	537,012	537,012
Net total	(67,107,844)	(6,664,650)	(9,664,650)	(83,437,144)	(80,363,907)

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates to their fair values.

2. Financial Risk Management (cont.)

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The consolidated entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates to their fair values.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
3. Revenue				
Revenue from continuing operations consisted of the following items:				
Sales of goods	797,939,424	696,618,657	503,695,268	377,641,597
Other income				
Interest revenue	498,869	944,495	231,487	479,247
Royalties	5,648,918	4,537,970	5,648,918	4,537,970
Rental revenue	715,300	621,715	626,830	584,931
Dividends from other entities	664,261	802	4,340,789	-
Profit on sale of investment	2,675,246	-	2,675,246	-
Other	425,533	118,182	947,855	1,419,951
Total	808,567,551	702,841,821	518,166,393	384,663,696
4. Expenses				
Profit before income tax includes the following specific expenses:				
(Gain)/loss on disposal of:				
property, plant and equipment	(584,837)	(130,519)	62,699	16,068
investments	-	6,119	-	-
Impairment of fixed assets	-	(466,573)	-	-
Net foreign exchange losses	159,012	70,291	159,012	70,291
Operating lease minimum lease payments	1,069,137	1,469,603	449,494	558,575
Increase in inventory provisions	500,479	2,620,176	500,481	605,512
Provision for/(Write back) of bad and doubtful debts	115,520	(162,603)	228,085	(329,030)
Employee benefits - defined contributions	5,599,065	4,883,660	3,854,065	3,031,263
Depreciation of non-current assets	16,055,783	13,656,247	9,128,651	6,829,997
Finance costs				
Interest on bank loans	7,091,432	4,453,890	3,666,486	771,212
Interest on obligations under finance leases	209,455	299,576	-	-
Other interest expense	890,380	918,742	680,924	918,742
Impairment loss on available for sale investments	-	635,000	-	-
Other finance costs	844,917	560,926	119,795	63,468
Total	9,036,184	6,868,134	4,467,205	1,753,422

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
5. Income tax				
Income tax recognised in profit				
Total income tax (expense)/benefit comprises:				
Current tax charge	(881,628)	(6,761,385)	(881,628)	(6,314,301)
Deferred tax (expense)/benefit from the origination and reversal of temporary differences	(1,959,087)	(3,277,526)	(2,871,325)	729,806
Adjustments recognised in the current year in relation to current tax of prior years	165,838	7,261,852	165,838	282,941
Total income tax (expense)/benefit	(2,674,877)	(2,777,059)	(3,587,115)	(5,301,554)
Income tax (expense)/benefit				
Reconciliation of income tax (expense)/benefit charged to the income statement with income tax calculated on profit from ordinary activities before income tax:				
Profit before income tax and dividends to members classified as borrowing expenses	12,005,004	36,686,400	21,064,230	19,388,911
Income tax expense calculated at 30%	(3,601,501)	(11,005,920)	(6,319,269)	(5,816,673)
Non-assessable income	4,536,172	-	4,253,240	-
Non-deductible expenses	(2,523,999)	(748,725)	(1,411,592)	(287,306)
Other assessable income	(432,217)	-	(432,217)	519,484
Other deductible expenses	3,000,917	1,715,734	156,885	-
Carried forward tax losses not recognised	(3,820,087)	-	-	-
Adjustments in respect of prior year				
Tax losses not previously brought to account	-	5,931,113	-	-
Other	165,838	1,330,739	165,838	282,941
Total	(2,674,877)	(2,777,059)	(3,587,115)	(5,301,554)
Income tax recognised in equity				
Total income tax (expense)/benefit comprises:				
Fair value of derivatives	1,033,750	(892,001)	290,911	-

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

5. Income tax (cont.)

	Opening or at acquisition \$	Charged to income \$	Charged to equity \$	Closing balance \$
Consolidated				
Period ending 30 June 2009				
Gross deferred tax assets				
Borrowing costs	16,643	74,190	-	90,833
Doubtful debts	58,635	34,647	-	93,282
Stock provisions	4,299,708	(937,729)	-	3,361,979
Sundry accrued expenses	2,282,383	(704,388)	-	1,577,995
Employee provisions *	5,015,835	6,784	-	5,022,619
Leased assets	99,795	(1,514)	-	98,281
Distributions proposed	3,754,983	(969,624)	-	2,785,359
Tax losses brought to account	3,280,999	1,725,692	-	5,006,691
	<u>18,808,981</u>	<u>(771,942)</u>	<u>-</u>	<u>18,037,039</u>
Gross deferred tax liabilities				
Property, plant and equipment	2,359,318	1,187,145	-	3,546,463
Fair value of derivatives	1,781,027	-	(1,033,750)	747,277
Total	<u>14,668,636</u>	<u>(1,959,087)</u>	<u>1,033,750</u>	<u>13,743,299</u>

* Included in the opening balance of deferred tax on employee provisions is \$1,236,563 relating to deferred tax balances on acquisition. For further details, see note 26.

	Opening Balance \$	Charged to income \$	Charged to equity \$	Closing balance \$
Consolidated				
Period ending 30 June 2008				
Gross deferred tax assets				
Borrowing costs	25,765	(9,122)	-	16,643
Doubtful debts	114,600	(55,965)	-	58,635
Stock provisions	-	4,299,708	-	4,299,708
Sundry accrued expenses	850,459	1,431,924	-	2,282,383
Employee provisions	3,522,706	256,567	-	3,779,273
Leased assets	87,850	11,945	-	99,795
Distributions proposed	9,634,060	(5,879,077)	-	3,754,983
Tax losses brought to account	9,312,359	(6,031,360)	-	3,280,999
	<u>23,547,799</u>	<u>(5,975,380)</u>	<u>-</u>	<u>17,572,419</u>
Gross deferred tax liabilities				
Property, plant and equipment	5,557,639	(3,198,321)	-	2,359,318
Fair value of derivatives	889,026	-	892,001	1,781,027
Total	<u>17,101,134</u>	<u>(2,777,059)</u>	<u>(892,001)</u>	<u>13,432,074</u>

5. Income tax (cont.)

	Opening balance \$	Charged to income \$	Charged to equity \$	Closing balance \$
Company				
Period ending 30 June 2009				
Gross deferred tax assets				
Borrowing costs	16,643	74,190	-	90,833
Doubtful debts	8,706	68,417	-	77,123
Stock	19,522	-	-	19,522
Sundry accrued expenses	112,136	23,148	-	135,284
Employee provisions*	3,436,309	(90,033)	-	3,346,276
Tax losses brought to account	3,280,999	(3,280,999)	-	-
Fair value of derivatives	-	-	290,911	290,911
	6,874,315	(3,205,277)	290,911	3,959,949
Gross deferred tax liabilities				
Property, plant and equipment	1,864,962	(333,952)	-	1,531,010
Total	5,009,353	(2,871,325)	290,911	2,428,939

* Included in the opening balance of deferred tax on employee provisions is \$1,236,563 relating to deferred tax balances on acquisition. For further details, see note 26.

Period ending 30 June 2008				
Gross deferred tax assets				
Borrowing costs	25,765	(9,122)	-	16,643
Doubtful debts	107,415	(98,709)	-	8,706
Stock	6,077	13,445	-	19,522
Sundry accrued expenses	100,850	11,286	-	112,136
Employee provisions	1,691,248	508,498	-	2,199,746
Tax losses brought to account	9,312,359	(6,031,360)	-	3,280,999
	11,243,714	(5,605,962)	-	5,637,752
Gross deferred tax liabilities				
Property, plant and equipment	2,169,370	(304,408)	-	1,864,962
Total	9,074,344	(5,301,554)	-	3,772,790

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Unrecognised deferred tax balances				
Deferred income tax assets not brought to account:				
Tax losses - capital	-	399,825	-	399,825

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
6. Current trade and other receivables				
Trade receivables	81,454,985	69,036,950	42,562,962	31,673,871
Allowance for impairment of receivables	(310,964)	(195,444)	(257,102)	(29,017)
	<u>81,144,021</u>	<u>68,841,506</u>	<u>42,305,860</u>	<u>31,644,854</u>
Goods and services tax (GST) receivable	4,752,784	4,599,365	2,510,283	677,474
Prepayments	600,857	1,935,046	225,995	1,442,016
Other debtors	6,660,337	1,408,755	6,660,337	1,408,755
Advances for vat loans	239,456	398,597	-	-
Advances to members of Tatura Milk	6,164,412	2,197,975	-	-
Total	<u>99,561,867</u>	<u>79,381,244</u>	<u>51,702,475</u>	<u>35,173,099</u>

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

Advances for vat loans are made to members of Tatura Milk to assist with the purchase of on farm milk storage vats. Interest is charged at 6.7% (2008 - 8.0%).

Advances to members of Tatura Milk are interest bearing loans and advances to be applied against future distributions. The interest bearing loans of \$1,947,776 (2008 - \$2,197,975) are to assist with short term working capital. The advances have a maximum repayment term of 12 months and interest is charged at 8% (2008 - 11.0%). Advances in respect of future distributions of Tatura milk of \$4,216,636 (2008 - \$nil) were paid by Tatura Milk subsequent to 30 June 2009 and carry no interest.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
7. Other financial assets				
At fair value:				
Fair value of derivatives	5,038,963	6,473,769	1,578,337	537,012
Total	<u>5,038,963</u>	<u>6,473,769</u>	<u>1,578,337</u>	<u>537,012</u>
8. Inventories				
Finished goods at cost	27,490,824	51,122,400	27,490,820	21,986,576
Finished goods at net realisable value	27,397,806	24,069,847	-	1,461,302
Raw materials and stores at cost	49,169,215	36,247,410	41,104,008	23,002,708
Total	<u>104,057,845</u>	<u>111,439,657</u>	<u>68,594,828</u>	<u>46,450,586</u>
9. Non-current assets - available for sale				
At fair value:				
Unlisted equity securities	159,626	-	159,626	-
Property plant and equipment	233,000	-	233,000	-
Total	<u>392,626</u>	<u>-</u>	<u>392,626</u>	<u>-</u>

Subsequent to 30 June 2009, the unlisted equity securities were sold for the value shown above. The property, plant and equipment is awaiting sale.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
10. Non-current assets - Other financial assets				
Investment in subsidiary - Tatura Milk	-	-	37,200,479	37,200,479
Fair valued through profit and loss				
Unlisted equity securities	12,733	827,234	22	814,523
Total	12,733	827,234	37,200,501	38,015,002

The parent entity, Bega Cheese, incorporated in Australia, purchased a 70% interest in Tatura Milk, also incorporated in Australia on 23 April 2007.

At 30 June 2008, Bega Cheese held 658,671 shares in Australian Co-operative Foods Limited and 159,626 shares in Dairy Farmers Milk Co-operative Limited. The shares in Australian Co-operative Foods Limited were sold prior to 30 June 2009. Subsequent to 30 June 2009, the shares in Dairy Farmers Milk Co-operative Limited were also sold and these have been reclassified in the year as non-current assets available for sale. For further details, see Note 9.

During the prior year, an impairment loss of \$nil (2008: \$635,000) was recognised in the Group in respect of investments in listed equity securities available for sales and expensed in profit or loss. No impairments are recognised in the Company (2008: \$nil).

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
11. Non-current assets - Property, plant and equipment				
Land and buildings				
At cost	79,088,624	50,104,134	50,454,523	26,966,626
Accumulated depreciation	(16,241,350)	(14,038,699)	(11,422,024)	(10,225,223)
Total land and buildings	62,847,274	36,065,435	39,032,499	16,741,403
Plant and equipment				
At cost	288,492,718	233,865,287	147,610,702	89,326,500
Accumulated depreciation	(159,008,799)	(153,536,588)	(59,675,082)	(52,087,131)
Total plant and equipment	129,483,919	80,328,699	87,935,620	37,239,369
Leased assets				
At cost	4,855,520	4,855,520	-	-
Accumulated depreciation	(2,947,996)	(2,254,350)	-	-
Total leased assets	1,907,524	2,601,170	-	-
Total property, plant and equipment	194,238,717	118,995,304	126,968,119	53,980,772

11. Non-current assets - Property, plant and equipment (cont.)

The movements in property, plant and equipment are:

	Land and buildings at cost \$	Plant and equipment at cost \$	Leased assets at cost \$	Total \$
Consolidated				
Period ending 30 June 2009				
Balance at the beginning of the period	36,065,435	80,328,699	2,601,170	118,995,304
Acquisition through business combinations	22,105,000	49,545,475	-	71,650,475
Capital expenditure	7,025,353	12,840,229	-	19,865,582
Disposals	(122,337)	(94,524)	-	(216,861)
Depreciation	(2,226,177)	(13,135,960)	(693,646)	(16,055,783)
Balance at the end of the financial period	<u>62,847,274</u>	<u>129,483,919</u>	<u>1,907,524</u>	<u>194,238,717</u>
Period ending 30 June 2008				
Balance at the beginning of the period	37,951,337	84,427,898	4,449,881	126,829,116
Capital expenditure	53,353	8,944,122	-	8,997,475
Disposals	(380,342)	(1,186,435)	(1,141,690)	(2,708,467)
Depreciation	(1,918,211)	(11,031,015)	(707,021)	(13,656,247)
Impairment loss	-	(466,573)	-	(466,573)
Transfers	359,298	(359,298)	-	-
Balance at the end of the financial period	<u>36,065,435</u>	<u>80,328,699</u>	<u>2,601,170</u>	<u>118,995,304</u>

During the prior year, an impairment loss of \$466,573 (2009: \$nil) was recognised in the Group and expensed in profit or loss. The impairment is in respect of a canning line located at Tatura Milk and is based on the recoverable value being reduced to reflect the best estimates of reduced production volumes. No impairments are recognised in the Company.

	Land and buildings at cost \$	Plant and equipment at cost \$	Total \$
Company			
Period ending 30 June 2009			
Balance at the beginning of the financial period	16,741,403	37,239,369	53,980,772
Acquisition through business combinations	22,105,000	49,545,475	71,650,475
Capital expenditure	1,383,761	9,170,771	10,554,532
Disposals	(485)	(88,524)	(89,009)
Depreciation	(1,197,180)	(7,931,471)	(9,128,651)
Balance at the end of the financial period	<u>39,032,499</u>	<u>87,935,620</u>	<u>126,968,119</u>
Period ending 30 June 2008			
Balance at the beginning of the financial period	17,354,534	37,863,288	55,217,822
Capital expenditure	3,864	5,652,451	5,656,315
Disposals	(768)	(62,600)	(63,368)
Depreciation	(975,525)	(5,854,472)	(6,829,997)
Transfers	359,298	(359,298)	-
Balance at the end of the financial period	<u>16,741,403</u>	<u>37,239,369</u>	<u>53,980,772</u>

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
12. Non-current assets - Intangible assets				
Brands	404,640	404,640	404,640	404,640
Water rights	1,765,000	-	1,765,000	-
Goodwill	-	-	-	-
Total intangible assets	2,169,640	404,640	2,169,640	404,640
Movement in intangibles				
Balance at the beginning of the financial period	404,640	404,640	404,640	404,640
Acquisition through business combination				
Goodwill	3,614,931	-	3,614,931	-
Water rights	1,765,000	-	1,765,000	-
Impairment of goodwill	(3,614,931)	-	(3,614,931)	-
Balance at the end of the financial period	2,169,640	404,640	2,169,640	404,640

Brands comprises the "Melbourne" brand for packing and distribution of cheese products under this label. The brand is considered to have an indefinite life due to the product life cycle and current market demand. Impairment was further tested by reviewing the revenue and profits of "Melbourne" brand products.

Water rights were acquired during the year as part of the acquisition of the Strathmerton facility. Impairment was tested by reference to market values. For further details of the Strathmerton facility acquisition, see note 26.

Goodwill was created during the process of an acquisition. Due to the impact of the global financial crisis on dairy commodity prices and the dairy industry, the goodwill was reviewed for impairment and written off prior to 30 June 2009. For further details on goodwill, see note 26.

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
13. Current liabilities - Trade and other payables				
Trade payables	54,831,838	63,523,758	38,916,699	39,854,445
Accrued charges and sundry creditors	31,106,652	36,792,196	16,398,815	12,609,736
Amounts owed to Tatura Milk	-	-	5,617,662	4,677,050
Fair value of derivatives	2,303,505	537,012	2,303,505	537,012
Total	88,241,995	100,852,966	63,236,681	57,678,243

The cost of the acquisition of Tatura comprises cash of approximately \$38,760,006 plus transaction costs of \$422,478 net of discounting of \$1,982,005 calculated using an average market rate of 6.2%. To date, \$32,760,006 (2008: \$22,760,006) has been paid with \$5,617,662 (2008: \$9,935,738) due next year, net of discounting. The gross amount owing to Tatura Milk is \$6,000,000 payable on 30 June 2010. This payment, net of interest discounting, is included in the amounts owed to the minority interest. Movements in the discounting are included in the income statement within finance costs.

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
14. Current liabilities - Borrowings				
Current - at amortised cost				
Secured term loans	76,833,652	30,832,045	40,900,000	9,500,000
Finance lease liabilities	836,743	698,694	80,057	-
Total	77,670,395	31,530,739	40,980,057	9,500,000

For further detail on borrowings see note 17.

15. Current liabilities - Provisions				
Employee benefits	11,018,549	7,802,807	5,916,995	3,059,294
Total	11,018,549	7,802,807	5,916,995	3,059,294

16. Non-current liabilities - Trade and other payables				
Amounts owed to Tatura Milk	-	-	-	5,259,688
Other trade payables	300,000	-	-	-
Derivatives	368,235	450,000	368,235	-
Total	668,235	450,000	368,235	5,259,688

For further detail on amounts payable to Tatura Milk, see note 27.

17. Non-current liabilities - Borrowings				
Secured				
Secured term loans	87,100,000	25,500,000	77,100,000	9,000,000
Finance lease liabilities	1,638,556	2,235,129	160,114	-
Total	88,738,556	27,735,129	77,260,114	9,000,000

Each of Bega Cheese and Tatura Milk have separate banking facilities. The respective facilities:

- are stand-alone facilities and are not subject to cross-charges or cross-guarantees;
- include normal commercial terms and conditions and particular bank covenants relating to the financial position and performance of the respective entities; and
- are subject to separate equitable mortgages and floating charges over all the assets and undertakings of the respective entities.

Further information relating to the facilities is set out at note 2.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
18. Non-current liabilities - Provisions				
Employee benefits	4,391,286	2,915,384	3,953,551	2,521,153
Total	4,391,286	2,915,384	3,953,551	2,521,153

The number of employees in the Group at 30 June 2009 was 1,160 (2008: 865). The number of employees in the Company as at 30 June 2009 was 842 (2008: 551).

	Company			
	2009	2008	2009	2008
	Shares	Shares	\$	\$
19. Contributed equity				
(a) Share capital				
Ordinary shares fully paid	24,809,805	24,795,805	24,809,805	24,795,805

	Company		
	Ordinary Shares \$ and number	A Class Shares \$ and number	B Class Shares \$ and number
(b) Movement in share capital			
Ordinary shares on issue at 1 July 2007	22,402,838	-	-
Subscribed by members	2,000	-	-
Purchased back from former members	(219,080)	-	-
Converted on restructure to Bega Cheese Limited as at 23 April 2008	(22,185,758)	19,808,070	2,377,688
Purchased by qualifying ex-members	-	-	2,586,047
Subscribed by shareholders	-	24,000	-
Transfers between classes	-	489,093	(489,093)
Ordinary shares on issue at 30 June 2008	-	20,321,163	4,474,642
Ordinary shares on issue at 1 July 2008		20,321,163	4,474,642
Subscribed by shareholders		14,000	-
Transfers between classes		(338,692)	338,692
Ordinary shares on issue at 30 June 2009		19,996,471	4,813,334

(c) Ordinary shares

Restructure of Bega Cheese

On 23 April 2008, The Bega Co-operative Society Limited was restructured into a Company, Bega Cheese Limited, incorporated under the Corporations Act 2001. Bega Cheese Limited has two classes of ordinary shares; A Class Shares, which are held by suppliers, and B Class Shares if the member has ceased to be a supplier. Voting control of Bega Cheese Limited is conferred on A Class Shares with one vote for each A Class Share held. B Class Shares do not carry any voting rights except for the purposes of voting on a variation of rights attached to B Class Shares. Both classes have rights to dividends and other distributions made on the basis of shares held.

On conversion to the Company, all shareholders of The Bega Co-operative Society Limited were issued with either A Class Shares or B Class Shares in Bega Cheese Limited equal to the number of shares they held in the Company before the restructure. Qualifying ex-members were given the opportunity to purchase B Class Shares under the 5 year 'Look Back' provisions in the Co-operatives Act 1992 (as amended). As the Company does not have a right to unconditionally re-purchase the shares, the shares are now classified in equity.

Members' shares before the restructure on 23 April 2008

In accordance with the Co-operatives Act 1992 (as amended) Bega Cheese was required to compulsorily acquire the shares of members in certain circumstances. As Bega Cheese did not have an 'unconditional right to avoid' the buy back of shares, they were classified as liabilities from 1 July 2004 until 23 April 2008. Each member was entitled to one vote.

As at 30 June 2009, Tatura Milk held 2,000 shares in Bega Cheese Limited (2008: 2,000).

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
20. Reserves and retained earnings				
(a) Reserves				
Capital profits reserve	40,635,527	40,635,527	32,563,182	32,563,182
Hedging reserve	328,770	2,864,824	(678,792)	-
Total	40,964,297	43,500,351	31,884,390	32,563,182
Movements in reserves were as follows:				
Hedging reserve				
Balance 1 July	2,864,824	1,407,889	-	-
Revaluation of fair value derivative	(3,332,023)	2,081,336	(678,792)	-
Transactions relating to the minority interest	795,969	(624,401)	-	-
Balance 30 June	328,770	2,864,824	(678,792)	-
Capital profits reserve				
Balance 1 July	40,635,527	40,626,398	32,563,182	32,563,182
Dividend paid or proposed	-	9,129	-	-
Balance 30 June	40,635,527	40,635,527	32,563,182	32,563,182
(b) Retained earnings				
Movements in retained earnings were as follows:				
Balance 1 July	61,655,160	35,587,203	42,583,224	30,270,768
Net profit for the year	10,670,883	27,842,858	17,477,115	14,087,357
Dividend paid or proposed	(2,479,405)	(1,774,901)	(2,479,405)	(1,774,901)
Balance 30 June	69,846,638	61,655,160	57,580,934	42,583,224
(c) Nature and purpose of reserves				
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1. The capital profits reserve is held to maintain adequate equity balances in the business.				

	Company	
	Full year 2009 \$	Full year 2008 \$
21. Dividends to members		
Recognised amounts		
2008 Final dividend of 10.0 cents (2007 - 8.0 cents)	2,479,405	1,774,901
Total	2,479,405	1,774,901
Unrecognised amounts		
2009 Final dividend of 7.0 cents (2008 - 10.0 cents)	1,737,106	2,479,581
Total	1,737,106	2,479,581
Value of the dividend franking account	242,333	53,984

Before payment of the dividends declared in 2007 and 2008, fewer members were entitled to the distributions which decreased the total paid. All dividends paid in the current and prior years were not franked. The proposed dividend is expected to be fully franked.

21. Dividends to members (cont.)

The following distributions and dividends were paid/payable to the minority interest by Tatura Milk, the controlled entity:

	Cents per share	Total amount \$	Franked/Unfranked	Date of payment
Declared and paid during the year 2009				
Dividend	10.0	4,774,302	Unfranked	November 2008
Completion distribution		3,480,905	Unfranked	July 2008
Proposed and unpaid				
Year end distribution		4,216,636	Unfranked	July 2009
Year end distribution		5,617,662	Unfranked	June 2010
Declared and paid during the year 2008				
Quarterly distribution	25.0	2,779,478	Unfranked	September 2007
Quarterly distribution	25.0	2,812,180	Unfranked	September 2007
Completion distribution	100.0	11,230,673	Unfranked	January 2008
Quarterly distribution	25.0	2,774,593	Unfranked	March 2008

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
22. Key management personnel remuneration				
The compensation of the key management of the Group and company is set out below:				
Short term employee benefits	2,871,817	2,818,739	1,768,694	1,470,638
Long term employee benefits	230,366	210,087	203,547	136,551
Total	3,102,183	3,028,826	1,972,241	1,607,189

23. Remuneration of auditors

Audit services

PricewaterhouseCoopers Australian firm

Audit and review of the financial report	185,000	-	99,000	-
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Non-PricewaterhouseCoopers Australian firm

Audit and review of the financial report of any entity in the Group	33,000	257,880	10,000	110,000
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Non-audit services

PricewaterhouseCoopers Australian firm

Tax compliance services	-	-	-	-
Other services	53,100	-	53,100	-

Non-PricewaterhouseCoopers Australian firm

Tax compliance services	131,000	65,435	35,000	30,000
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24. Contingent liabilities, guarantees and warranties

The Group provides warranties for products it supplies to customers in the ordinary course of business on reasonable commercial terms. No material warranty claims have arisen since 30 June 2009 which result in the need to raise additional liabilities of the Group as at 30 June 2009.

25. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Capital expenditure - payable within one year

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

Plant and equipment	1,510,738	6,489,338	1,257,994	731,917
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(b) Lease commitments - Group as lessee

Non-cancellable operating leases

Operating leases held by Bega Cheese relate to equipment with lease terms of up to five years and no option to extend. Bega Cheese does not have an option to purchase the leased asset at the expiry of the lease period. The additional leases included in the Group relate to motor vehicle operating leases. The motor vehicle leases typically run for a period of one to five years with an option to renew the lease after this date.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Plant and machinery				
Within one year	753,762	672,899	639,823	344,860
Between one and five years	518,554	653,344	508,473	631,116
Over five years	-	2,134	-	2,134
Land buildings				
Within one year	39,204	39,204	39,204	39,204
Between one and five years	-	39,204	-	39,204
Total	1,311,520	1,406,785	1,187,500	1,056,518

(c) Finance leases

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

Within one year	988,207	908,150	80,057	-
Between one and five years	1,749,376	2,497,413	160,114	-
Minimum lease payments	2,737,583	3,405,563	240,171	-
Future finance charges	(262,284)	(471,740)	-	-
Total lease liabilities	2,475,299	2,933,823	240,171	-
Representing lease liabilities:				
Current (note 14)	836,743	698,694	80,057	-
Non-current (note 17)	1,638,556	2,235,129	160,114	-
Total	2,475,299	2,933,823	240,171	-

The Group leases production plant and equipment under finance leases expiring from one to five years. At the end of the lease term, the Group has the option to purchase the equipment at lower than market value. The Group's lease liabilities are secured by the leased assets of \$2,147,695 (2008:\$2,601,171) as in the event of default, the leased assets revert to the lessor.

26. Business combination

(a) Summary of acquisitions

Coburg facility

On 31 October 2008, Bega Cheese acquired the Coburg facility, a cheese making plant located in Coburg, Victoria.

The acquired business contributed revenues of \$5,120,777 and a loss of \$(2,079,735) to the Group for the period from 31 October 2008 to 30 June 2009. If the acquisition had occurred on 1 July 2008, consolidated revenue and profit for the year ended 30 June 2009 would have been \$820,963,995 and \$8,290,260 respectively.

Strathmerton facility

On 13 March 2009, Bega Cheese acquired the Strathmerton facility, a cheese processing and packaging plant located in Strathmerton Victoria.

The acquired business contributed revenues of \$39,857,692 and a loss of \$(1,181,323) to the Group for the period from 13 March 2009 to 30 June 2009. If the acquisition had occurred on 1 July 2008, consolidated revenue and profit for the year ended 30 June 2009 would have been \$891,550,150 and \$6,555,643 respectively.

Basis of assumption of profit and revenue figures

These amounts have been calculated using the Group's accounting policies by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July, 2008, together with the consequent tax effects.

(b) Purchase consideration

	Consolidated and Company Coburg and Strathmerton Facilities
	\$
Cash paid	77,672,986
Direct costs relating to the acquisition	4,229,087
Total consideration	81,902,072
Fair value of net identifiable assets acquired (per (c) below)	87,017,533
	(5,115,460)
This balance is represented by:	
Goodwill	3,614,931
Discount on Acquisition	(8,730,392)

The goodwill acquired was subsequently assessed as impaired and written off prior to 30 June 2009, see note 12.

The discount on acquisition is included in the income statement.

(c) Assets and liabilities acquired

	Acquiree's carrying amount	Fair value
	\$	\$
Trade and other receivables	71,748	71,748
Inventories	16,646,301	16,646,301
Assets held for resale	233,000	233,000
Property, plant and equipment	63,567,000	71,650,475
Intangible assets	-	1,765,000
Deferred tax asset	1,219,312	1,236,563
Trade and other payables	-	(463,676)
Provisions	(4,064,375)	(4,121,878)
Net assets	77,672,986	87,017,533

There were no acquisitions in 2008.

27. Related party disclosures

(a) Terms and conditions of related party transactions

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

During the period the Company had the following transactions with Tatura Milk :

	Sales to Tatura Milk		Purchases from Tatura Milk	
	2009	2008	2009	2008
	\$	\$	\$	\$
Dairy products	2,013,886	679,574	11,636,633	11,133,222
Management fees	578,988	1,354,461	-	-

The following balances arising from transactions between the Company and Tatura Milk are outstanding at reporting date:

- Receivables are included in trade and other receivables of \$1,005,710 (2008 - \$86,303).
- Payables are included in trade and other creditors of \$1,236,988 (2008 - \$1,296,908).
- Deferred consideration of \$5,617,662 (2008 - \$9,936,738).

During the period the Group had the following transactions with its joint venture:

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales	10,098,224	8,082,168	10,098,224	8,082,168

Bega Cheese also rented property, plant and equipment to the joint venture on normal commercial terms.

(b) Key management remuneration

This is disclosed in note 22.

(c) Transactions with directors

The current directors each owned equity shares and supplied milk to Bega Cheese on normal commercial terms and conditions during the year.

28. Subsidiary

	Country of Incorporation	Class of Shares	Equity holding *	
			2009 %	2008 %
Tatura Milk Industries Limited	Australia	Ordinary	74	72

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

On acquisition, Bega Cheese acquired a 70% interest in Tatura Milk and undertakings were given to the Directors and members of Tatura Milk that the minority would retain 30%. During the year ended 30 June 2008 and 30 June 2009, a number of redeemable preference shareholders in Tatura Milk exited the business and the shares held by the members were compulsorily purchased by Tatura Milk under the constitution. As a result, the minority interest fell to 26% by 30 June 2009 (2008 - 28%). Bega Cheese has not consolidated the additional 4% (2008 - 2%) into the financial statements as a Tatura Milk redeemable preference share repurchase scheme is due to be introduced later in 2009 which will enable the redeemable preference shareholders to retain a 30% equity interest.

29. Joint venture

Bega Cheese holds a 25% interest in the output of Capitol Chilled Foods (Australia) Pty Ltd, the management company responsible for operating the joint venture. The principal activity of the joint venture is liquid milk and chilled food distribution. Bega Cheese's interest in assets employed in the joint venture is detailed below. The amounts are included in the financial statements under their respective asset categories:

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Current assets				
Cash	402,276	53,627	402,276	53,627
Trade and other receivables	1,682,206	1,444,636	1,682,206	1,444,636
Inventories	190,056	159,649	190,056	159,649
Total current assets	2,274,538	1,657,912	2,274,538	1,657,912
Non-current assets				
Property, plant and equipment	431,961	436,503	431,961	436,503
Total assets	2,706,499	2,094,415	2,706,499	2,094,415
Current accounts payable	1,357,377	705,931	1,357,377	705,931
Total liabilities	1,357,377	705,931	1,357,377	705,931
Net assets	1,349,122	1,388,484	1,349,122	1,388,484
Income	12,889,130	11,883,823	12,889,130	11,883,823
Expenses	10,900,992	9,873,896	10,900,992	9,873,896

No contingent liabilities arose from the consolidated entity's interest in the joint venture. The capital commitments arising from the consolidated entity's interest in the joint venture are included within note 25.

30. Notes to the cash flow statement

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Reconciliation of cash and cash equivalents				
Cash	21,963,081	11,416,009	15,671,086	8,626,688
Total	<u>21,963,081</u>	<u>11,416,009</u>	<u>15,671,086</u>	<u>8,626,688</u>
(b) Financing facilities				
Amount used	166,408,951	59,687,131	118,000,000	18,500,000
Amount unused	72,006,457	54,246,692	24,400,000	24,500,000
Total	<u>238,415,408</u>	<u>113,933,823</u>	<u>142,400,000</u>	<u>43,000,000</u>
(c) Reconciliation of profit for the period to net cash flows from operating activities				
Profit after income tax	9,330,127	33,909,341	17,477,115	14,087,357
Adjustments for non-cash items				
Depreciation of non-current assets	16,055,783	13,656,247	9,128,651	6,829,997
Gain on acquisition of business	(8,730,392)	-	(8,730,392)	-
Impairment of goodwill	3,614,931	-	3,614,931	-
Impairment of assets	-	466,573	-	-
Write down of investment	-	635,000	-	-
Loss/(profit) on sale of				
property, plant and equipment	(584,837)	(130,519)	62,699	16,068
investment	(2,675,245)	6,119	(2,675,245)	-
Interest income received and receivable	(498,869)	(923,329)	(231,487)	(458,080)
Change in value of derivatives	123,700	-	123,700	-
Interest payable on leases	209,455	287,568	-	-
Dividend receivable	(664,261)	(802)	(4,340,789)	-
Discount on deferred consideration	680,924	894,846	680,924	918,743
Changes in provisions for doubtful debts	115,520	(162,603)	228,085	(329,030)
Changes in provision for stock obsolescence	500,479	2,620,176	500,479	605,512
Changes in net assets and liabilities:				
net of effects from acquisitions				
(Increase)/decrease in assets:				
Trade and other debtors and GST recoverable	(18,948,961)	(19,934,861)	(17,973,482)	(8,934,220)
Inventories	23,527,632	(55,573,763)	(5,998,420)	(23,993,444)
Prepayments	1,405,937	289,161	1,287,769	(759,088)
Increase/(decrease) in liabilities:				
Trade creditors	(8,391,920)	15,439,572	(937,746)	5,946,205
Accrued expenses and sundry creditors	(6,149,218)	12,563,480	3,325,403	(2,701,550)
Decrease/(increase) in other tax balances	2,674,876	2,777,059	3,587,114	5,301,554
Changes to provisions	569,766	(262,543)	168,221	704,571
Net cash flows from operating activities	<u>12,165,427</u>	<u>6,556,722</u>	<u>(702,470)</u>	<u>(2,765,405)</u>