



ASX ANNOUNCEMENT

Bega Cheese Limited Annual Report for the Year Ended 30 June 2011

The Manager
Company Announcements Office
ASX

By Electronic Lodgement

Dear Sir/Madam

Attached is the Annual Report for Bega Cheese Limited for the year ended 30 June 2011.

Yours faithfully

A handwritten signature in black ink that reads "B. G. Kelly". The signature is fluid and cursive, with a long horizontal stroke at the end.

Brett Kelly
Company Secretary

28 September 2011

For further information please contact

Brett Kelly
Company Secretary
Bega Cheese Limited
02 6491 7777



Bega Cheese Limited
Annual Report
30 June 2011

Bega Cheese Limited

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

Tatura Milk Industries Limited

Tatura Milk Industries Limited (subsidiary of Tatura Milk) is the 70% subsidiary of Bega Cheese.

Capitol Chilled Foods (Australia) Pty Ltd

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

Principal Registered Office

23-45 Ridge Street
Bega NSW 2550
02 6491 7777

Share Register

Link Market Services Limited
Level 1
333 Collins Street
Melbourne VIC 3000
1300 554 474

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

Solicitors

Addisons
Level 12
60 Carrington Street
Sydney NSW 2000

Bankers

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

Westpac Banking Corporation
360 Collins Street
Melbourne VIC 3000

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

Stock Exchange Listing

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

Website

www.begacheese.com.au

Directors

Barry Irvin
Executive Chairman
Supplier Director

Max Roberts
Supplier Director

Richard Parbery
Supplier Director

Tom D'Arcy
Supplier Director

Richard Platts
Supplier Director

Peter Margin
Independent Director

Company Secretary

Brett Kelly
Company Secretary

Executive Chairman's Leadership Team

Barry Irvin
Executive Chairman

Aidan Coleman
Chief Executive Officer

Colin Griffin
Chief Financial Officer, Bega Franchise Manager,
Company Secretary

Maurice Van Ryn
General Manager - Sales & Marketing

Paul van Heerwaarden
Executive General Manager - Tatura Milk

Executive Chairman's Review



The 2010/11 financial year was truly a historic one at Bega Cheese Group. Continued sales growth, ongoing investment in additional capacities and capabilities, a strategic investment in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) and shareholder approval to list the Company on the Australian Securities Exchange (ASX) saw the Bega Cheese Group very well positioned for future growth and development.

Total Group sales revenue of \$ 931.7 million, an increase of \$102.7 million reflects increased volume and selling price across the contract, bulk commodity and value added components of our business. The profit before tax of \$22.1 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$52.2 million was in line with expectations.

The business continued to focus on the integration and investment in capacities and capabilities of the recently acquired manufacturing site at Coburg and cheese packaging and processing plant at Strathmerton. The investment in mozzarella capacities at Coburg and the addition of natural cheese cutting and packaging at Strathmerton along with ongoing investment in process improvement across the organisation sees the Group well placed to take advantage of new business opportunities.

The general improvement in global commodity prices although offset by the increase in the value of the Australian dollar saw an important improvement in farm gate milk pricing across the industry. Improved milk prices combined with better seasonal conditions saw much better farming conditions across the majority of the Bega Cheese Group's milk supply base. While improved conditions and milk price have been welcomed by our supply base, ongoing price stability and improvement combined with more favourable climatic conditions will be necessary to rebuild confidence and milk volumes across the industry. The Bega Cheese Group continued to endeavour to deliver a leading competitive milk price with the average price paid across the Group in the 2010/11 year being 42 cents per litre.

The long term business philosophy of building strong relationships with all our customers and ensuring we focus product development on the value added segment of dairy continued this year. A number of new products were launched both within Australia and internationally. The business remains well balanced between contract value adding of dairy products for key customers such as Fonterra Brands (Australia) and Kraft Foods Limited and direct sales in the Australian and international market. At the close of the financial year, 68% of the Group's business was in the Australian market place with 32% in the international market particularly Asia and the Middle East.

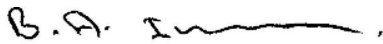
An important contributor to the overall sales and profit outcomes of the Bega Cheese Group was the performance of Tatura Milk. Tatura Milk revenues of \$308.0 million and profit before tax of \$13.8 million represented an ongoing improvement in that business's financial performance. Investment at Tatura Milk continued to be in the key growth platforms of cream cheese, infant formula and nutritionals. Long term customer relationships with Snow Brand and Lacto Japan and the implementation of our ten year supply agreement with Mead Johnson sees a very strong sales and volume base now established.

Strong business performance, capacity and capability investment and the integration of acquisitions have all been very important parts of the Bega Cheese Group's strategic positioning this year. In addition to the core business activities, Bega Cheese was very pleased to execute a share placement in one of Australia's largest dairy manufacturers in WCB. In November 2010, Bega Cheese purchased 15% of WCB's share capital becoming the largest shareholder in the Company. WCB is the largest single site cheese manufacturer in Australia and has a well-established Australian and international customer base. WCB is strategically positioned in western Victoria which is one of the dairy growth regions in Australia. The companies continue to investigate opportunities to work together to improve efficiencies and create new market opportunities.

The most historic vote in Bega Cheese's one hundred and ten years occurred on the 21st April, 2011 with shareholders voting to change the Company's Constitution to enable it to list on the ASX. The change in the Bega Cheese corporate structure delivered more flexibility to existing shareholders in terms of their investment in the Company and positioned the organisation well to take advantage of new business and rationalisation opportunities.

The Bega Cheese Group has always been ambitious in its objectives and what it has sought to achieve. The successful execution of investments, acquisitions, business development and strategy all require significant commitment and effort from all involved. I would like to acknowledge the contribution and hard work of the entire executive, management and staff of the Bega Cheese Group. The teams at both Bega Cheese and Tatura Milk worked collaboratively to ensure we met our objectives. This was never more evident than the smooth transition of Aidan Coleman from Chief Executive Officer (CEO) of Tatura Milk to CEO of Bega Cheese in May of this year.

On a personal note I would like to thank the Board for the advice and counsel they have provided me throughout the year and on their behalf thank shareholders for their support of the many initiatives that now sees the Bega Cheese Group the largest publicly listed dairy company in Australia and well positioned to build on what has already been created.



Barry Irvin

Executive Chairman
27 September 2011

Chief Executive Officer's Review of Operations and Activities



The 2010/11 financial year saw the Bega Cheese Group continue to execute its program of external growth, while at the same time undertaking significant internal structural development in preparation for its Initial Public Offering (IPO) and listing on the ASX in the year ended 30 June 2011.

Of particular note was the General Meeting on 21 April 2011 at which the shareholders of Bega Cheese resolved to approve a four-for-one share split for each 'A Class' Share and 'B Class' share on issue, effective on that date. At that meeting the shareholders also approved converting the 'A Class' and 'B Class' shares to ordinary shares and adopting a new Constitution, both approvals taking effect on the date Bega Cheese lodged its listing prospectus with the Australian Securities and Investments Commission (ASIC). The effect of these resolutions was to facilitate the listing of Bega Cheese on the ASX, which was completed on 19 August 2011.

In the course of its business operations, the Group continued to conduct its principal activity of receiving, processing, manufacturing and distributing dairy and associated products and both Bega Cheese and Tatura Milk operated consistently throughout the year. Total consolidated sales revenue for the Group was \$931.7 million, representing an increase of 12.4% over the preceding year. This revenue growth was essentially driven by improved international dairy commodity volumes and price realisation, as well as increased revenue from growth in cheese contract manufacturing at Strathmerton. In addition, the business experienced a change in its production mix, with more dairy solids being directed to higher value products and less commodity products being manufactured during the year.

Bega Cheese Group generated an EBITDA of \$52.2 million for the year ended 30 June 2011, compared to \$52.1 million in the prior year, being a slight increase of \$0.1 million. An increase in the overall sales volume and average selling prices across the portfolio of dairy products in the Group was offset in part by increases in the input cost of milk and transitional costs relating to the recently acquired facilities at Coburg and Strathmerton. The increase in contract manufacture sales by Bega Cheese resulted in an increase in total sales revenue but a decrease in the EBITDA margin as a percentage of sales due to the pricing structure of these contracts.

The Group consolidated profit before tax (PBT) totalled \$22.1 million in the year ended 30 June 2011, which was consistent with the prior year. This result included a number of one-off costs associated with the restructure and listing of Bega Cheese on the ASX totalling \$1.7 million.

The consolidated business has substantial manufacturing and commercial operations in NSW and Victoria at both Bega Cheese and Tatura Milk. The Group received approximately 591 million litres of milk in the year ended 30 June 2011, which was a decrease of 30 million litres or 5%. This decrease was largely the result of lower purchases from produce merchants and other non-farmer milk traders. The average cost of milk to the Bega Cheese Group in the year ended 30 June 2011 was approximately 42 cents per litre, being an increase of 5 cents per litre or 13%, in line with the general movement in market prices paid for milk during the year.

The Group continues to maintain a strong focus on utilising its production capabilities to improve the average returns for the milk it processes and while total milk intake declined by 5% in the year the Company manufactured 186,223 metric tonnes (mt) of dairy products, being a slight decrease of 849 mt or 0.5% on the prior year. Whilst total production did not change materially, there was a change in mix of products manufactured, with milk solids being directed to more value added products including cream cheese, nutritional infant dairy powders and high quality cheddar table cheese.

Bega Cheese Group has two reporting segments, which are the operations of Bega Cheese and the operations of Tatura Milk. In the year ended 30 June 2011, both of these segments generated improved sales revenues and overall earnings were considered to be satisfactory given the various one off costs incurred in the year in relation to the pending IPO.

At Bega Cheese, sales revenue of \$651.8 million was 15.4% above the preceding year's revenue of \$564.8 million. The increase in total sales by Bega Cheese reflected both an increase in volume and an increase in average selling prices. Volume growth was largely the result of increased contract manufacture sales, which was partially offset by lower export sales due to the higher value of the Australian dollar.

Bega Cheese generated EBITDA of \$29.8 million for the year ended 30 June 2011, compared to \$29.9 million in the prior year. The increase in Bega Cheese's total revenue was largely offset by an increase in the average cost of milk paid to farmers consistent with the change in market milk prices and one off costs of \$1.7 million associated with the

IPO. The Bega Cheese business segment generated profit after tax of \$7.2 million for the year ended 30 June 2011, compared to \$7.3 million in the prior year, being a decrease of \$0.1 million or 1%.

Tatura Milk generated total revenue of \$308.0 million for the year ended 30 June 2011, being an increase of \$37.9 million or 14%. Over the course of the 2010/11 year, Tatura Milk maintained a strong focus on its working capital management and as a result the business saw its total sales volume increased by 7% on the prior year, which contributed to a drop in inventories of \$21.5 million. Tatura Milk also benefited from an increase in global dairy commodity prices and a redirection of milk solids to higher sales value/margin products such as cream cheese, which resulted in an increase in the overall average selling price per metric tonne of 7%.

Tatura Milk generated EBITDA of \$23.5 million for the year, compared to \$23.1 million in the prior year, being a slight increase of \$0.4 million or 2%. The increase in Tatura Milk's total revenue was partly offset by an increase in the average cost of milk paid to farmers and other milk suppliers, consistent with the change in market milk prices.

The Tatura Milk business generated a profit after tax of \$15.6 million for the year ended 30 June 2011, compared to \$16.8 million in the prior year, being a decrease of \$1.2 million or 7%. The most significant movement in this result related to taxation whereby Tatura Milk received a tax benefit of \$1.8 million in 2011, compared with \$4.1 million in 2010. The tax benefit in 2011 arose mainly from co-operative related tax deductions. In 2010, the tax benefit arose mainly from the recognition of losses incurred in prior years.

The Group continues to invest in the ongoing development of its safety culture, where significant progress has been made in recent years as a result of the Behavioural Safety Program at Bega Cheese which is now being planned for roll out to Tatura Milk. The Company monitors its safety performance using the Lost Time Injury Frequency Rate (LTIFR) and also the safety observation rate (Contact Rate), the latter being a lead indicator. This area continues to be a major focus for the organisation and now forms part of a critical performance triangle encompassing safety, quality and environment.

The Company continues to hold shares in two other dairy processors. Bega Cheese has a 25% share of Capitol Chilled Foods (Australia) Pty Ltd (CCFA) in Canberra which is a regional market milk processor. On 12 November 2010, Bega Cheese acquired a 15% interest in WCB. This investment had a net cost of \$22.2 million and was funded by available debt facilities. As at 30 June 2011 the value of this investment had increased, resulting in a net fair value adjustment through the Statement of Comprehensive Income of approximately \$10.5 million.

When reflecting on the 2010/11 year, it was one of significant change for the Bega Cheese Group. While the major focus was preparing the business for a successful IPO this work occurred in conjunction with significant capital and organisational programs being undertaken across the Group. These business changes would not have been possible without the energy and dedication of the executive and management at both Bega Cheese and Tatura Milk. I would like to thank the respective teams for the significant contributions to the business performance over the year and their dedication provided me with a relatively seamless transition in May 2011 from the role of CEO at Tatura Milk to that of CEO at Bega Cheese. This would not have been possible without the focus and leadership of the executive groups at each of the respective businesses.

As we look towards the future, the Group, like many other business enterprises, is managing the balance between the collective potential impacts of currency and global financial volatility versus the beneficial increasing demand for dairy products as a substantial source of food nutrition, especially in the Asian region. The Bega Cheese Group is likely to produce approximately 200,000 tonnes of assorted dairy based products including cheddar and mozzarella cheese, cream cheese, infant nutritional powders as well as general dairy commodities such as milk powders, butter and whey powders. The Group has a broad product portfolio and a good balance of domestic and international trade. We believe that the nature of this portfolio together with diversity of our markets positions the Group well for the coming year.



Aidan Coleman
Chief Executive Officer
27 September 2011

Directors' Report

Your Directors present the annual financial report of the Bega Cheese Group for the year ended 30 June 2011.

Directors

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



Barry Irvin AM

Executive Chairman, Supplier Director since September, 1989

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

Other Current Directorships. Warrnambool Cheese and Butter Factory Company Holdings Limited, Gardiner Foundation, Tatura Milk Industries Limited, Capitol Chilled Foods (Australia) Pty Ltd and Giant Steps Sydney Limited

Former directorships in the last 3 years. Nil

Special Responsibilities. Chair of the Board and Member of Nomination and Remuneration Committee

Interests in Shares as at 30 June 2011 - 3,004,984 Ordinary Shares



Max Roberts

Supplier Director since September, 1983

Experience and Expertise. Max Roberts has been involved in the dairy industry for many years, including agripolitical, board representation and direct dairy farming activities. Max Roberts was a director of Milk Marketing NSW Pty Ltd, Chairman of NSW Farmers Inc dairy section and Vice President of Australian Dairy Farmers Federation.

Other Current Directorships. Chairman of Dairy Australia Limited

Former directorships in the last 3 years. Nil

Special Responsibilities. Member of Nomination and Remuneration Committee

Interests in Shares as at 30 June 2011 - 1,675,000 Ordinary Shares



Richard Parbery FCPA

Supplier Director since September, 1988

Experience and Expertise. Richard Parbery is a Managing Partner of a successful regional accounting practice, is a Fellow of the Australian Society of Certified Practising Accountants, a registered company auditor, registered tax agent and a Justice of the Peace NSW. Richard Parbery is experienced in servicing many agricultural and general business clients.

Other Current Directorships. Tatura Milk Industries Limited

Former directorships in the last 3 years. Nil

Special Responsibilities. Chairman of Audit and Risk Committee

Interests in Shares as at 30 June 2011 - 2,664,012 Ordinary Shares

Tom D'Arcy Dip. App. Sc (Dairy Tech), Dip Ag, GAICD
Supplier Director since April, 1998

Experience and Expertise. Following graduation Mr D'Arcy worked in quality control at Bega Cheese and ultimately became responsible for management of quality systems until he left in 1977. Tom D'Arcy extended his knowledge of international dairy practices by working for the International Agricultural Exchange in Alberta Canada before returning to Australia to manage his family's farming business.

Tom D'Arcy has actively represented farmers on many state and federal committees designed to address key and emerging issues in the Australian dairy industry.

Other Current Directorships. Director of Dairy NSW since 2004

Former directorships in the last 3 years. Nil

Special Responsibilities. Member of Audit and Risk Committee

Interests in Shares as at 30 June 2011 - 1,280,276 Ordinary Shares



Richard Platts Adv Dip Agr; GAICD
Supplier Director since November, 2000

Experience and Expertise. Richard Platts has been representing farmers for over twenty years, through various roles in the NSW Dairy Farmers Association, Dairy Industry Development Corporation (DIDCO) and Dairy Farmers Co-operative.

Other Current Directorships. Nil

Former directorships in the last 3 years. Nil

Special Responsibilities. Member of Nomination and Remuneration Committee

Interests in Shares as at 30 June 2011 - 3,537,956 Ordinary Shares



Peter Margin BSc (Hons), MBA
Independent Director since 27 June 2011

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

Other Current Directorships. Nil

Former directorships in the last 3 years. Goodman Fielder Ltd

Special Responsibilities. Chairman of Nomination and Remuneration Committee and Member of Audit and Risk Committee

Interests in Shares as at 30 June 2011 - Nil



Principal Activities

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and associated products. A number of key events in relation to the activities of the Group during the year ended 30 June 2011 are set out in the Executive Chairman's Review and the Chief Executive Officer's Review of Operations and Activities, which is to be read in conjunction with this Directors' report.

Dividends

In respect of the financial year ended 30 June 2011 the Directors paid an ordinary fully franked dividend of 1.25 cents per share (2010: 7 cents per share fully franked), which represented distributions of \$1,359,000 (2010: \$1,901,000). The 2010 final dividend of 7 cents per share was based on the pre share split number of shares on issue.

Review of Operations

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

Significant Changes in State of Affairs

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

Indemnification and Insurance Premiums for 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 of the Company or any related body corporate against a liability incurred as such an officer. This does not include remuneration or employment-related benefits, any sum payable pursuant to a financial support direction or contribution notice issued in respect of any pension scheme, fines and pecuniary penalties for a deliberate or intentional act, nor amounts which are prohibited to be paid by law.

In July 2011, each Director entered into a Deed of Access and Indemnity with the Company which indemnifies them for losses incurred as a Director or officer of Bega Cheese and places an obligation on Bega Cheese to maintain a current Directors' and Officers' policy with a reputable insurer for the period of the Director's tenure and for a seven year tail period (or longer if there is an unresolved outstanding claim against the Director) and a contractual right of the Director to access Company records for the period of the Director's tenure and for a seven year tail period (or longer if there is an unresolved outstanding claim against the Director).

Company Secretaries

The Company Secretary registered with the ASX is Brett Kelly CA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 26 years experience. He has also been a Graduate member of the Australian Institute of Company Directors since 2006.

Colin Griffin CA was appointed to the position of Company Secretary in 1993. Colin Griffin holds a Bachelor of Arts in Accounting and is a Chartered Accountant with 28 years' experience. Colin Griffin leads the finance team and is responsible for corporate development, mergers and acquisitions and legal affairs for Bega Cheese and Tatura Milk.

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 other than the items set out below:

- On 9 March 2011 Bega Cheese and Tatura Milk signed a Merger Principles Agreement (MPA) under which the parties agreed in principle to implement a 100% merger of the companies by way of Bega Cheese acquiring all of the redeemable preference shares in Tatura Milk so as to make Tatura Milk a wholly owned subsidiary of Bega Cheese. The MPA identifies that the proposed merger would be implemented by way of a scheme of arrangement (which would require approvals from the court and the Tatura Milk redeemable preference shareholders), with the holders of redeemable preference shares in Tatura Milk receiving ordinary shares in Bega Cheese as consideration for the acquisition of their shares. The MPA also anticipates that Bega Cheese and the supplier directors of Tatura Milk would seek to agree the detailed terms of the merger, with those details to be recorded in a Merger Implementation Agreement, before the actual merger process is commenced. Bega Cheese and the supplier directors of Tatura Milk are engaged in ongoing negotiations in relation to the terms of the proposed merger, but as at the date on which these financial statements were authorised for issue, no Merger Implementation Agreement has been signed. Accordingly it is not possible to estimate the financial effect of the proposed merger at this time.
- In April 2011 the shareholders of Bega Cheese resolved to approve changes to the Constitution. The new Constitution was required to enable Bega Cheese to list on the ASX. The Bega Cheese prospectus was lodged on 18 July 2011, and as such the conversion of 'A Class' shares and 'B Class' shares to ordinary shares and the adoption of the new Constitution took effect from 18 July 2011.
- On 18 July 2011 Bega Cheese issued a prospectus inviting the public and employees of Bega Cheese to subscribe for shares. Under the offer 17,500,000 shares were issued to the public at an issue price of \$2.00 per share. In addition 532,975 shares were issued to staff of Bega Cheese under the Tax Exempt Plan and the Incremental Plan for no consideration. In total 18,032,975 ordinary shares were issued for consideration totalling \$35,000,000, with the shares being issued and the cash proceeds from the issue of shares being received in August 2011. A further 362,500 shares are to be issued in August 2012 under the Retention Award. Bega Cheese incurred costs normally associated with issuing shares and listing on the ASX leading up to and subsequent to 30 June 2011. At 30 June 2011, expenses of \$2,746,000 had been incurred, of which \$2,152,000 are attributed to the new capital raising and are due to be written off against the equity raised on listing. Other expenses related to the IPO include share based payments. For further detail, see Note 32.
- Bega Cheese formally listed on the ASX on 19 August 2011, with ordinary shares in Bega Cheese being tradable on the ASX from that date.
- Following the issue of shares under the prospectus Bega Cheese had 126,709,903 shares on issue with a total paid up value of \$62,169,232.
- Since 30 June 2011 the market value of shares in WCB has decreased from \$4.55 per share on 30 June 2011, resulting in a decrease in the fair value of Bega Cheese's investment in WCB. Further information on price risk is given in Note 2.
- On 15 July 2011, the bank facilities agreed pre 30 June 2011 were amended. This had the effect of reclassifying to non-current borrowings of \$12,500,000 that were included in current borrowings at 30 June 2011.

Future Developments

Bega Cheese continues to analyse and act on opportunities for future development within the dairy industry. Bega Cheese is working towards a full merger with Tatura Milk in late 2011 and has reached agreement in principal with Coles to supply the entire range of Coles branded cheese products. Bega Cheese continues to monitor its investment in WCB and has purchased minor parcels of shares subsequent to 30 June 2011. Further information on future developments has not been included because disclosure would likely result in unreasonable prejudice to the Group.

Environmental Regulations

The Bega Cheese Group is committed to sustainable business growth, efficient consumption of resources, minimisation of waste and fulfilment of our social and community obligations. The Group's environmental performance is monitored through various management programs across the sites that are consolidated to ensure corporate environmental performance is delivered. The Bega Cheese Group is proactive in developing on-farm Environment Management System programs aimed at improving the sustainability of dairy farming.

Environmental Performance

The Bega Cheese Group is subject to National and State regulatory instruments for the factory operations. The site activities are licenced under the Environment Protection Act which has specific requirements for each site. This determines disposal methods, limits and quality of wastewater from the sites as well as limits for air and noise emissions. The Company is fully compliant with all requirements or has in place a process agreed by the regulatory authorities that will deliver compliance. During the course of the year some minor compliance issues at Tatura Milk were identified and resolved with no financial penalty to the Group.

Environmental Regulations

The Group is subject to considerable environmental regulations with reporting requirements including the *Energy Efficiency Opportunities Act 2006*, *National Greenhouse and Energy Reporting Act 2007* and the *Environment and Resource Efficiency Plans Regulations (Victoria)* under the *Environment Protection Act 2001*.

The Environment Protection Act 2001

The sites in Bega, Strathmerton and Tatura operate under licence from the relevant state Environment Protection Authority (EPA). All sites are compliant with the reporting requirements of the respective licences. The Company continues to work closely with the EPA in areas where improvement is required in specific compliance performance to deliver the desired outcome in an acceptable timeline.

The Environment Protection Act 2001 requires our Tatura and Strathmerton sites in Victoria to prepare action plans to achieve relevant water and waste efficiency gains through the Energy and Resource Efficiency Plan (EREP) Regulations. The relevant sites operating under the EREP program have submitted action plans which have been accepted and the site teams are implementing agreed projects to deliver savings identified in the plans. Compliance with the EREP program has been achieved.

The *Energy Efficiency Opportunities Act 2006* requires the Group to assess its energy use and investigate opportunities for energy savings and report publicly the information gathered from the assessments. Reports include actions the Group plans to take based on the results of the investigations to improve energy performance. The Group has met the *Energy Efficiency Opportunities Act 2006* compliance requirements and the public reports are posted on our website.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to measure and report greenhouse gas emissions. The Group has submitted the 2010 Annual Report and is on track to complete the 2011 report. The Group has implemented programs to improve the efficiency and accuracy of data collection since our first report of annual greenhouse emission.

Rounding of Amounts

The Group is of a kind referred to Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Meetings of Directors and Board Committees

The following table sets out the number of Board, Audit and Risk Committee and Communications Committee meetings held during the year ended 30 June 2011 and the number of meetings attended by each eligible Director and other members:

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	27	27
Max Roberts	28	26
Richard Parbery	28	27
Tom D'Arcy	28	28
Richard Platts	28	28

Max Roberts and Richard Parbery gave apologies in advance of the meetings they were unable to attend. Peter Margin joined the Board of Directors on 27 June 2011 which was after the last Board Meeting for the year ended 30 June 2011.

	Meetings of the Audit and Risk Committee ⁽¹⁾	
	Held and Eligible ⁽³⁾	Attended
Richard Parbery	12	12
Tom D'Arcy	12	12
Brett Kelly - Company Secretary ⁽²⁾	12	12

⁽¹⁾ At a meeting of the Board of Directors on 10 May 2011 a new charter was adopted and the name of the Finance Committee was changed to the Audit and Risk Committee. The above table summarises attendance for both committees.

⁽²⁾ Brett Kelly resigned from the Committee on 21 July 2011.

⁽³⁾ Peter Margin joined the Audit and Risk Committee on 29 August 2011, which was after the last meeting of the 30 June 2011 year.

	Meetings of the Communications Committee	
	Held and Eligible	Attended
Max Roberts	3	3
Richard Platts	3	3
Ken Garner - Senior Manager - Milk Supply & Farm Services	3	3

The first meeting of the Nomination and Remuneration Committee took place after 30 June 2011.

Remuneration Report

This report sets out the remuneration of the Executive Chairman, CEO and other key management personnel of the Group, being the executives accountable for planning, directing and controlling the affairs of the Group, covering the financial year to 30 June 2011.

This report also addresses the remuneration of the non-executive Directors of the Company, being those Directors who do not hold executive responsibilities. The remuneration of non-executive Directors is determined by reference to the Constitution in place as at 30 June 2011.

During the year ended 30 June 2011, the Board was responsible for all matters relating to the appointment and remuneration of senior executives.

Subsequent to 30 June 2011 the Board established a Nomination and Remuneration Committee, under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating directors and senior executives. This Committee will make recommendations to the Board in relation to remuneration principles and procedures for employees of the Company and provide guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic development in the year ending 30 June 2012 and beyond. The Nomination and Remuneration Committee did not have any involvement in executive remuneration during the year ended 30 June 2011.

Appointment of the Most Senior Management Position in the Company

The Board is responsible for the appointment of the most senior management position in the Company. During the period from 1 July 2010 until 9 May 2011, Barry Irvin held the position of Executive Chairman of the Company, which included responsibilities of the CEO. On 10 May 2011, the Board appointed Aidan Coleman as CEO at which time Barry Irvin's Executive Chairman's role was modified to accommodate the appointment of a dedicated CEO.

Aidan Coleman's appointment was the culmination of a process initiated and stewarded by the Board. This process included the development of clear position and performance guidelines for the CEO role, as well as the any resultant impact on and changes to the role of Executive Chairman. In particular, the structure, responsibilities and remuneration of both roles were reviewed and finalised with input from external organisational and remuneration specialists who are familiar with the Group (Hewitt Australia Pty Ltd). This included consideration of the anticipated IPO of Bega Cheese early in the 2011/12 financial year and the proposed purchase of the remaining 30% of Tatura Milk.

General Remuneration Guidelines – Year Ended 30 June 2011

The Board, Executive Chairman and CEO of the Company were responsible for the remuneration principles and procedures for employees of the Company.

The Tatura Milk Board and CEO/Executive General Manager were responsible for the remuneration principles and procedures for employees of Tatura Milk. Whilst the Company controls Tatura Milk, Bega Cheese leaves control of the day to day operations, the human resources function and the specific remuneration strategies to the Tatura Milk Board (which is controlled by Bega Cheese nominated Directors) and senior management of Tatura Milk.

The key remuneration guidelines which apply to the Company and Tatura Milk are summarised below.

Remuneration of the Executive Chairman of Bega Cheese

The Board has determined that remuneration of the Executive Chairman would be split as to his responsibilities as Chairman of the Board and as to his responsibilities as the most senior executive of the Company.

The Board has taken independent advice in determining the remuneration of the Executive Chairman and excluded the Executive Chairman where appropriate from its deliberations in relation to the remuneration which should be applied.

Executive Duties

The following principles apply to the remuneration of the Executive Chairman for executive duties:

- A set base salary which is adjusted down for any fees the Executive Chairman may earn from his role as Director with related organisations and dairy industry entities.
- An at risk short-term incentive amount subject to the achievement of agreed outcomes.

Non-executive Duties

The remuneration of the Executive Chairman, in his capacity as a Director on the Board with non-executive responsibilities, for each of the years ending 30 June 2010 and 2011 was the amount as approved by the shareholders, being:

Name	Allowance and Period	2011 \$	2010 \$
Barry Irvin	Chairman's Allowance Bega Cheese ⁽¹⁾	52,160	52,160
	Directors' Allowance Bega Cheese ⁽¹⁾	24,963	24,963
	Superannuation on Allowances ⁽²⁾	6,941	6,941
	Total Non-executive related Directors Fees and Superannuation	84,064	84,064

(1) Directors fees include a Directors Allowance, plus an additional allowance as the Chairman. The shareholders of the Company approved the Directors fees (including the Chairman's Allowance) on 31 October 2008. The Directors' fees paid to the Chairman for his non-executive responsibilities did not change during the year ended 30 June 2011.

(2) 9% Superannuation is payable in addition to the Chairman's Allowance and Directors Allowance.

Non-Executive Chairman of Tatura Milk

In addition to his remuneration as Executive Chairman of the Company, Barry Irvin is also paid by Tatura Milk a Director's fee and Chairman's allowance for his role as Non-executive Chairman of that entity. The total remuneration of all the Directors of Tatura Milk is specified in its Constitution to not exceed \$225,000 per annum. In accordance with the agreement of the Directors of Tatura Milk as to the split of Director's fees, Barry Irvin is paid \$40,000 per annum (plus superannuation at 9%) by Tatura Milk for his services as Non-executive Chairman of that entity.

Remuneration of the CEO of Bega Cheese

Aidan Coleman was appointed CEO on 10 May 2011 under a specific service agreement. The remuneration of the CEO of the Company was determined by the Board having regard to independent advice. The following principles apply to the remuneration of the CEO:

- A set base annual salary of \$542,500.
- An at risk short term incentive amount subject to the achievement of agreed outcomes of up to \$232,500.
- As part of his service agreement with the Company, Aidan Coleman will benefit from a long term incentive scheme (Coleman LTI) which is to be linked to the market price of Bega Cheese shares. At 30 June 2011 the final details of the Coleman LTI were not resolved, as listing of the Company on the ASX was a condition precedent to this entitlement. Subsequent to 30 June 2011 and the Company listing on the ASX, the Remuneration and Nomination Committee sought independent advice as to the form and structure the Coleman LTI should take, with the objective being to clearly define that element of Aidan Coleman's remuneration as soon as practicable. As at 30 June 2011, the Company has disclosed \$9,649 as the cost of the Coleman LTI for the period from 10 May 2011 to 30 June 2011. This cost is an estimate only, based on probabilities of future movement in the market value of shares in the Company and assumptions as to the final structure of the Coleman LTI.

Other key terms of Aidan Coleman's service agreement are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Company	Six months' notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity or breach of the service agreement by the executive without remedy.
Termination by Executive	Six months' notice or lesser period as agreed by the Company.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.
Continuity of Employment	Aidan Coleman's untaken leave entitlements accrued during his period of employment with Tatura Milk were transferred to the Company on 10 May 2011. In addition, Aidan Coleman's period of service with Tatura Milk will be used for the purposes of calculating all future leave entitlements and redundancy.

Remuneration of Other Senior Executives

The total remuneration and remuneration structure of the senior executives of the Company and Tatura Milk is reviewed on an annual basis and any changes recommended to the relevant Board. Board approval is required to set the remuneration of each senior executive and the relevant Board may ask for any additional information it deems necessary in order to form a view as to the reasonableness of the recommendations it receives.

Remuneration of Managers and other Salaried Staff

The total remuneration and remuneration structure of managers other than the senior executives is reviewed on an annual basis and any changes recommended by that person's direct manager/supervisor. Such recommendations are to be in accordance with guidelines set by the Group at the beginning of the annual review process. Where recommendations are to be made outside of the relevant guidelines the senior executive ultimately responsible for the relevant staff member is required to approve the recommendation.

The CEO and General Manager Human Resources review the recommendations and approve the remuneration of managers and other salaried staff for the Company.

The Executive General Manager and the Human Resources Manager of Tatura Milk review the recommendations and approve the remuneration of managers and other salaried staff for Tatura Milk.

Inclusion of At Risk Component in Total Remuneration Package

Senior executives each have part of their total remuneration at risk. The payment of the at risk component is subject to the actual performance of the individual and each Company in the Group against pre-determined financial and non-financial criteria.

The predetermined criteria are reviewed by the respective Board on an annual basis to ensure they closely align with the specific corporate, leadership and financial objectives of each Company in the Group. The Strategic Plan, Business and/or Operating Plans and Annual Budgets are the key reference points used in setting the predetermined criteria. The respective Board approves the predetermined criteria each year for each senior executive.

At the end of the financial year the CEO/Executive General Manager calls for reports from the human resources and finance departments as to actual performance against the predetermined criteria. The CEO/ Executive General Manager also consider the audited annual report and other factors in formulating a recommendation as to the final outcomes for the at risk component of the remuneration for senior executive employees. A report and recommendation is then submitted to the respective Board. Board approval is required before the at risk component of the remuneration for each of the senior executives is paid.

Attracting and Retaining the Right Talent

Each Company in the Group recognises the need to attract and retain the right mix of management talent, experience and expertise. Accordingly, human resources policies and procedures are benchmarked to competitive market conditions and regularly reviewed for relevance to:

- The area of expertise and skills required to run each particular business unit.
- The geographic regions in which the various businesses operate.
- The industry (and sub-set of each industry where relevant) in which the various businesses operate.

Where particular skills are required, but which are not readily available within the regions each business operates, the Group may also need to respond to global competitive challenges to ensure the best possible skills are recruited.

Benchmarking Remuneration

When recruiting for new or vacant positions, each entity in the Group reviews market/segment/skill sets specific data in conjunction with the relevant human resources department to ensure remuneration to be offered is within generally accepted competitive guidelines. Remuneration surveys, detailed data tables collated by human resources experts and guidance from specialist recruitment firms are sought when determining the remuneration package to be offered for new key positions. All new positions or material changes to remuneration for existing vacant positions must first be approved by the General Manager - Human Resources and the relevant authorised business unit manager or department head.

For existing employees subject to enterprise agreements this benchmarking process is concentrated around the period leading up to renewal of those agreements and also includes feedback from Unions and other stakeholders subject to the relevant enterprise agreements.

For salaried staff the benchmarking review is usually concentrated around an annual review of remuneration packages and performance to predetermined criteria, and involves a detailed review by the relevant human resources department of any material changes to benchmark data which may need to be taken into account as part of the current years' review.

Annual Salary Review Process

The remuneration of each salary-based employee is reviewed in detail at least once per year and at other times where there has been a material change in job description, roles and/or responsibilities. The annual salary review process is conducted in accordance with a timetable applying a broad scope of pre-determined guidelines including the overall performance of each Company in the Group, changes to relevant industry benchmarks and financial and other budget criteria.

The annual review process provides staff the opportunity to give and gain feedback as to their overall performance, specific performance against predetermined key performance criteria and career development opportunities.

Shares or Share Options

In June 2011 the Company advised employees that it has adopted an Employee Share Scheme. The scheme was subject to the listing of Bega Cheese Limited on the ASX, which occurred in August 2011. The intent of the scheme was primarily to recognise eligible employees who, through their present and past years of service with the Company, had helped to position the Company to list. The scheme as announced is a one-off, discrete scheme and does not form part of the Company's overall remuneration strategy.

Post-employment Benefits

The Group does not currently include post-employment payments or other benefits as part of their remuneration strategy other than the payment of superannuation contributions.

Executive Chairman's Leadership Team - Key Management Personnel and Service Agreements

The Executive Chairman's Leadership Team is selected by the Executive Chairman, is accountable for planning, directing and controlling the affairs of the Group, represents the key management personnel for the Group and comprises the following people:

Name	Positions held	Entity	2011	2010
Barry Irvin ⁽¹⁾	Executive Chairman	Bega Cheese	✓	✓
	Non-executive Chairman	Tatura Milk	✓	✓
	Non-executive Deputy Chairman	CCFA	✓	✓
Aidan Coleman ⁽²⁾	CEO	Tatura Milk	To 9 May 2011	✓
	CEO	Bega Cheese	From 10 May 2011	-
	Non-executive Director	Tatura Milk	From 10 May 2011	-
Maurice Van Ryn ⁽¹⁾	General Manager Sales & Marketing	Bega Cheese	✓	✓
	Alternate Non-executive Director	Tatura Milk	-	To 17 Feb 2010
	Non-executive Director	Tatura Milk	To 9 May 2011	From 17 Feb 2010
Colin Griffin ⁽¹⁾	Chief Financial Officer, Bega Franchise Manager, Company Secretary	Bega Cheese	✓	✓
	Non-executive Director	Tatura Milk	✓	✓
	Non-executive Director	CCFA	✓	✓
Paul van Heerwaarden ⁽²⁾	Chief Financial Officer	Tatura Milk	To 9 May 2011	✓
	Executive General Manager	Tatura Milk	From 10 May 2011	-

✓ Indicates position held for the full financial year ended 30 June

⁽¹⁾ Member of the Bega Cheese Short Term Incentive Scheme

⁽²⁾ Member of the Tatura Milk Short Term Incentive Scheme

The terms of employment of the Executive Chairman's leadership team are as per the General Remuneration Guidelines set out above except as follows. Maurice Van Ryn and Colin Griffin each have a specific service agreement with the Company, the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Company	One year's notice or payment in lieu of such minimum notice. Forthwith in the event of incapacity, breach of the service agreement by the executive without remedy, or the executive being guilty of wilful neglect or grave misconduct.
Termination by Executive	One year's notice or lesser period as agreed by the Company. Forthwith in the event of the Company going into liquidation or making any composition or arrangement with its creditors or breach of the agreement by the Company without remedy.
Payments on Termination by Company	If Division 2 of Part 2D.2 of the <i>Corporations Act 2001</i> does not apply, the full amount of the executive's salary package. If Division 2 of Part 2D.2 of the <i>Corporations Act 2001</i> does apply, the lesser of: i. the full amount of the executive's salary package; or ii. the maximum amount permitted by Section 200G of the <i>Corporations Act 2001</i> without approval of shareholders.

Aidan Coleman held a service agreement with Tatura Milk up until 9 May 2011, the key terms of which were as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by either Tatura Milk or Executive	Six months' notice or, at the discretion of Tatura Milk, payment in lieu of such minimum notice.
Termination by Tatura Milk	Forthwith in the event that the executive becomes incapacitated, bankrupt, of unsound mind, is guilty of serious misconduct or is convicted of a serious criminal or civil offence which affects his ability to perform his duties.
Termination by Executive	Four weeks' notice if given within 3 months of a change of control of Tatura Milk, in which case the executive is entitled to a payment equal to 3 months' salary.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period or payment on termination by the executive as a result of a change of control of Tatura Milk as per above.

Aidan Coleman's service agreement with Tatura Milk was terminated by mutual consent with effect from 9 May 2011, immediately following which Aidan Coleman assumed the role of CEO with the Company.

Paul van Heerwaarden has a specific service agreement with Tatura Milk which took effect from his commencement as Executive General Manager on 10 May 2011, the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Tatura Milk	Three months' written notice or forthwith in the event of incapacity or breach of the service agreement by the executive without remedy.
Termination by Executive	Three months' written notice.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above. In the event of redundancy, an additional amount equal to one month's pay for each completed year of service to a maximum of 12 months' severance payment.

Executive Chairman's Leadership Team - Remuneration Structure and At Risk Payments

Consistent with all senior executives in the Group, the remuneration of the Executive Chairman's Leadership Team (Leadership Team) includes at risk payments, the structure of which is addressed below.

Total Employment Cost

The Group sets the remuneration of each member of the Leadership Team having regard to the total employment cost (TEC) of that employee to the Group.

The Group and the relevant Leadership Team member have some latitude as to how the TEC can be structured so as to meet the needs of the particular executive, so long as all employment, income tax, fringe benefits tax and other relevant legislation is complied with and the TEC approved through the annual review process is not exceeded.

Base Remuneration

The Base Remuneration for each Leadership Team member is determined as part of the annual salary and performance review process and comprises:

- A Base Salary, which is paid monthly. The Base Remuneration is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period.
- Superannuation contributions, ranging from 10% to 15% depending on the salary package agreed with each Leadership Team member.

The Company

At Risk Performance-based Remuneration - 2011 Short Term Incentive Scheme (2011 STI)

The at risk component for each of Barry Irvin, Maurice Van Ryn and Colin Griffin for the year ended 30 June 2011 was determined in accordance with the 2011 STI approved by the Board. Under the 2011 STI, qualifying for any part of the at risk component of the remuneration was subject to a number of conditions precedent, the Company achieving a pre-determined minimum profit performance and other prescribed performance hurdles, including safety, quality and environmental management. The 2011 STI also allowed for the at risk component for each participating executive to escalate as the profit performance of the Company exceeded certain predetermined targets.

For Barry Irvin, Maurice Van Ryn and Colin Griffin, the remuneration at risk totalled 30% of their Base Salary (plus or minus the Company profit performance escalation factor). The actual financial performance of the Company for the year ended 30 June 2011 was such that the profit performance escalation factor was 1.0, meaning that each participating executive received 100% of their final individual at risk outcome.

The final at risk outcome for each of Barry Irvin, Maurice Van Ryn and Colin Griffin was measured against pre-determined at risk criteria across three specific areas of performance with the final outcome for the year ended 30 June 2011 being:

Element of Business and Profit Performance	At Risk	Achieved	At Risk	Achieved	At Risk	Achieved
	Barry Irvin		Maurice Van Ryn		Colin Griffin	
Company	50%	50%	50%	50%	50%	50%
Individual business units	25%	18.75%	25%	18.75%	25%	18.75%
Divisional and individual targets	25%	25%	25%	12.5%	25%	23%

Tatura Milk

Whilst Aidan Coleman was CEO at Tatura Milk, his remuneration was set by the Board of Tatura Milk and was paid by that entity until his appointment as the CEO of Bega Cheese in May 2011. In setting Aidan Coleman's remuneration, the Tatura Milk Board applied the General Remuneration Guidelines as set out above.

With effect from 10 May 2011 when Aidan Coleman joined Bega Cheese as CEO, Paul van Heerwaarden, under the direction of the Board, was appointed Executive General Manager and assumed the responsibility previously held by Aidan Coleman for remuneration principles and procedures.

At Risk Performance-based Remuneration - Tatura Milk Short Term Incentive Scheme (Tatura STI)

For the financial year ended 30 June 2011 Aidan Coleman and Paul van Heerwaarden participated in the Tatura STI, which set out the at risk criteria for the participating senior Tatura Milk managers.

Under the Tatura STI, the at risk component of Aidan Coleman's total remuneration represented a maximum of 40% of his Base Salary.

Aidan Coleman left Tatura Milk on 9 May 2011 and joined Bega Cheese from 10 May 2011. However, as part of his Employment Contract with Bega Cheese, and recognising that he had been with Tatura Milk for the vast majority of the financial year, it was agreed that Aidan Coleman would retain entitlement to his Tatura STI as if he had remained at Tatura Milk until the end of the financial year. Under this agreement, Aidan Coleman would not participate in or benefit from any payments made under Bega Cheese's 2011 STI.

Under the Tatura STI, the at risk component of Paul van Heerwaarden's total remuneration represented a maximum of 25% of his base salary at 30 June 2011.

The final at risk outcome for each of Aidan Coleman and Paul van Heerwaarden was measured against pre-determined at risk criteria across three specific areas of performance, with the final outcome for the year ended 30 June 2011 being:

Element of Business and Profit Performance	At Risk	Achieved	At Risk	Achieved
	Aidan Coleman		Paul van Heerwaarden	
Team objectives	60%	54%	60%	54%
Quality performance	20%	16%	20%	16%
Safety performance	20%	0%	20%	0%

Remuneration Outcomes

The remuneration outcome for the five highest paid executives of the Company and Group, which includes the key management personnel, together with the remuneration of each non-executive Director for each of the years ended 30 June was as follows:

	Year	Cash Salary \$	Bonus Payments \$	Non-monetary Benefits ⁽¹⁾ \$	Other Payments \$	Super-annuation \$	Long Service Leave ⁽²⁾ \$	Total Remuneration \$
Executive Chairman								
Barry Irvin ⁽³⁾	2011	377,372	91,686	-	117,123	23,171	5,397	614,749
	2010	372,072	71,560	-	117,123	19,571	4,165	584,491
Executives								
Aidan Coleman ^{(4) * #}	2011	419,131	146,080	20,000	-	65,300	6,496	657,007
	2010	373,942	147,628	20,000	-	50,000	8,392	599,962
Maurice Van Ryn ^{* # ^ +}	2011	217,578	50,065	25,300	-	25,825	5,127	323,895
	2010	191,753	42,416	24,800	-	19,133	6,051	284,153
Colin Griffin ^{* # ^ +}	2011	296,334	67,847	25,300	-	23,416	7,792	420,689
	2010	274,110	51,878	24,800	-	22,802	30,511	404,101
Paul van Heerwaarden ^{* #}	2011	223,027	56,875	15,738	-	25,191	1,257	322,088
	2010	200,189	25,457	15,738	-	20,512	5,894	267,790
Matthew Fanning ^{^ +}	2011	161,727	42,410	25,300	-	28,309	2,930	260,676
	2010	157,178	30,435	24,800	-	25,678	16,890	254,981
Grattan Smith ^{^ +}	2011	165,880	37,870	14,800	-	28,578	5,305	252,433
	2010	156,923	29,000	14,800	-	23,467	11,579	235,769
Sean Moran ^{* ^}	2011	209,005	39,813	23,200	-	20,083	5,075	297,176
Michael Byrnes ^{(5) # +}	2010	195,250	-	29,700	230,880	34,962	(5,887)	484,905
Non-Executive Directors								
Max Roberts	2011	-	-	-	51,372	4,624	-	55,996
	2010	-	-	-	40,457	3,641	-	44,098
Richard Parbery	2011	-	-	-	55,261	4,973	-	60,234
	2010	-	-	-	46,964	4,226	-	51,190
Tom D'Arcy	2011	-	-	-	34,340	3,090	-	37,430
	2010	-	-	-	33,698	3,032	-	36,730
Richard Platts	2011	-	-	-	35,088	3,157	-	38,245
	2010	-	-	-	35,222	3,170	-	38,392

(1) Includes car allowances, fringe benefits tax allowance and professional memberships.

(2) The expense related to long service leave accrual during the year.

(3) Includes remuneration for Non-executive Chairman responsibilities from both the Company and Tatura Milk.

(4) Bonus payments include an estimate of \$9,649 in respect of a long-term incentive based on the achievement of specified milestones of the Bega Cheese share price. The terms of the scheme will be formalised in 2012.

(5) Retired 31 January 2010. Other payments include a special discretionary bonus approved by the Board for years of service on retirement.

^ Indicates one of the 5 highest paid executives of the Group () and/or Company (^) in 2011

#+ Indicates one of the 5 highest paid executives of the Group (#) and/or Company (+) in 2010

Auditor's Independence Declaration

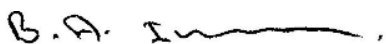
A copy of the auditor's independence declaration as required under section 307C of the *Corporation Act 2001* is set out on page 21.

Auditor

Details of the amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services provided during the financial year are set out in Note 24.

The Board of Directors have considered the position and are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by PricewaterhouseCoopers, did not compromise the auditor independence requirements of the *Corporations Act 2001*. A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

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



Barry Irvin
Executive Chairman



Max Roberts
Director

Bega
27 September 2011



Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2011, 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 handwritten signature in black ink, appearing to read 'P.J. Carney', written in a cursive style.

PJ Carney
Partner

Melbourne
27 September 2011

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Corporate Governance Statement

The Bega Cheese Group is committed to achieving and maintaining the highest standards of accountability and transparency in the management and conduct of the business of Bega Cheese and its related bodies corporate (Group). The Board has adopted corporate governance policies and practices which it believes are consistent with the continued growth and success of the Group and the ongoing enhancement of value for all Bega Cheese shareholders.

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

The Board notes that the ASX has made a number of changes to the Recommendations, which will not apply to the Company until its next financial year.

Copies of all the Company's key policies and practices and the charters for the Board and its committees (each a Board Committee) referred to in this statement are available in the corporate governance section of the Company's website at www.begacheese.com.au.

Principle 1 – Lay Solid Foundations for Management and Oversight

Board and Management Functions (Recommendation 1.1)

The roles and responsibilities of the Board and Board Committees are defined in the Board Charter and the written charters of the Audit and Risk Committee (ARC) and the Nomination and Remuneration Committee (NRC).

The Board Charter also sets out the delegated responsibility of the CEO for the day-to-day management and operation of the Bega Cheese business.

The Chairman of the Board is responsible for leading and overseeing the operation of the Board and assisting individual Directors to fulfil their respective duties. The Board has also allocated to the Chairman an executive role in relation to the strategic direction of the Bega Cheese Group. The Chairman will work in collaboration with the CEO, selected senior executives and the Board to build mutually beneficial commercial relationships with existing and potential business partners and customers and maintain and enhance the reputation of the Company through active engagement with all key stakeholders.

Management Performance Evaluation (Recommendation 1.2)

The performance of the senior executives is reviewed regularly against performance indicators determined by the Board. For further details refer to the Remuneration Report on pages 12 to 20.

Principle 2 – Structure the Board to Add Value

Details of Directors (Recommendations 2.1, 2.2, 2.3 and 2.6)

Membership of the Board is currently comprised of five longstanding Supplier Directors, including the Executive Chairman (Barry Irvin), and one recently appointed Independent Director (Peter Margin). The Board intends to appoint a second Independent Director in the near future.

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

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

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

This means that contrary to Recommendations 2.1 and 2.2, the Board does not include a majority of Independent Directors. However, despite this, the Board considers that it is well-placed to fulfil its duties and, in particular, to effectively review and constructively challenge the performance of management. Further, the Board believes that Barry Irvin is the right person to continue to perform the role of Executive Chairman by virtue of his extensive knowledge of, and experience in, the Bega Cheese business and the Australian dairy industry generally.

Recommendation 2.3 requires that there is a clear division of responsibility between the roles of the Executive Chairman and the CEO. The Company believes that the perspective and expertise that Barry Irvin brings to the strategic development of the Group are essential to its continuing success. For this reason, the overlap in the executive roles of the Executive Chairman and the CEO is appropriate.

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

Nomination and Remuneration Committee (Recommendation 2.4)

The NRC was formed on 29 August 2011. The NRC's Charter requires the NRC to consist of at least three members. Currently, the membership of the NRC is comprised of one Independent Director (Peter Margin) as chair of the committee and three non-Independent Directors (Barry Irvin, Max Roberts and Richard Platts).

The NRC has two major functions:

- a. to assess and make recommendations to the Board on any changes to the composition of the Board with a view to ensuring that the Board is able to operate effectively and efficiently and adequately discharge its responsibilities and duties; and
- b. assist the Board to ensure that the Company:
 - i. fairly and responsibly remunerates its Directors and executives;
 - ii. has coherent remuneration policies and practices to attract and retain Directors and executives who will create value for shareholders and that support Bega Cheese's wider objectives; and
 - iii. has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet the Company's needs.

The NRC meets on at least a six-monthly basis. A quorum consists of three NRC members. The NRC may invite any person from time to time to attend meetings of the committee.

Board Performance Evaluation (Recommendation 2.5)

Under its Charter, the NRC is responsible for assessment of, and setting processes in relation to, the whole of Board performance review and the individual evaluation of non-executive Directors, as well as of senior management (also see Principle 8 below). Prior to the establishment of this committee, the Executive Chairman and Board were responsible for these processes.

Principle 3 – Promote Ethical and Responsible Decision Making

Code of Conduct (Recommendation 3.1)

Bega Cheese has a code of conduct (Code) that contains a cohesive set of principles that all officers and employees of the Group are required to abide by in business and dealings with stakeholders.

The key aspects of the Code are to:

- a. act with honesty, integrity and fairness and in the best interests of Bega Cheese;
- b. act in accordance with all applicable laws, regulations, policies and procedures; and
- c. use Bega Cheese resources and property properly.

Diversity Policy (Recommendations 3.2, 3.3 and 3.4)

The Company's diversity policy provides a framework for Bega Cheese to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours, and improved employment and career development opportunities for women.

Bega Cheese's diversity strategies include:

- a. recruiting from a diverse pool of candidates, including senior management and the Board;
- b. reviewing succession plans to ensure an appropriate focus on diversity;
- c. identifying specific factors to take account of in recruitment and selection processes to encourage diversity; and
- d. establishing programs to develop a broader pool of skilled and experienced senior management and board candidates.

In respect of financial years commencing after 1 July 2011, the Company will be required to disclose in its annual report:

- a. the measurable objectives for achieving gender diversity set by the Board, and progress towards achieving them; and
- b. the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

Principle 4: Safeguard Integrity in Financial Reporting

Audit and Risk Committee (Recommendations 4.1, 4.2, 4.3 and 4.4)

In accordance with Recommendation 4.2, the ARC is comprised of Richard Parbery as chair of the committee, one Independent Director being Peter Margin and one non-executive Director being Tom D'Arcy. The Company Secretary, Brett Kelly, was a member until 21 July 2011.

The responsibilities of the ARC include:

- a. overseeing the process of financial reporting, internal control, financial and non-financial risk management and compliance and external audit;
- b. monitoring Bega Cheese's compliance with laws and regulations and its own policies;
- c. ensuring that the relationship between Bega Cheese and its external auditor remains independent; and
- d. evaluating the adequacy of processes and controls established to identify and manage areas of potential risk.

The ARC must regularly update the Board on the activities of the committee and bring any significant issues identified to the Board's attention on a timely basis.

Meetings of the ARC are generally held bi-monthly before meetings of the Board. A rolling timetable will be agreed to plan meetings with external auditors at least twice a year and meetings to review the interim and annual accounts and annual budget. Special meetings will be called as necessary.

Members and the secretary of the ARC are entitled to attend at all meetings. The ARC may invite other persons to attend as required. The quorum of any meeting of the ARC is two members.

Principle 5: Make Timely and Balanced Disclosure

Continuous Disclosure Policy (Recommendations 5.1 and 5.2)

Bega Cheese is committed to observing its disclosure obligations under the Listing Rules and the Corporations Act. Bega Cheese has adopted a continuous disclosure policy that establishes procedures aimed at ensuring that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Principle 6: Respect the Rights of Shareholders

Communications Policy (Recommendations 6.1 and 6.2)

Bega Cheese is committed to keeping shareholders informed of all major developments affecting Bega Cheese relevant to shareholders and in accordance with all applicable laws. Information will be communicated to shareholders through the lodgement of all relevant financial and other information with ASX and publishing information on Bega Cheese's website (www.begacheese.com.au).

In particular, Bega Cheese's website will include media releases, key policies and Board Committee charters. All relevant announcements made to the market and any other relevant information will be posted on Bega Cheese's website as soon as practicable after it has been released to ASX.

Principle 7: Recognise and Manage Risk

Risk Management Policy and Risk Management Committee (Recommendations 7.1 and 7.2)

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

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

The CEO and Chief Financial Officer have confirmed to the Board that, as at the date of this report, the risk management systems of Bega Cheese are sound and are operating effectively in all material respects, including in relation to financial reporting risks.

Principle 8: Remunerate Fairly and Responsibly

Nomination and Remuneration Committee (Recommendations 8.1, 8.2 and 8.4)

The responsibilities of the NRC include matters relating to the remuneration policies and practices of the Company.

The membership and conduct of the NRC are set out at Principle 2 above. The composition of the NRC does not comply with Recommendation 8.2 to the extent that it recommends that a remuneration committee consist of a majority of independent non-executive Directors. However, the Board believes that, in the context of the current make-up and size of the Board, the perspective and expertise that the current members bring to the NRC is appropriate.

Structure of Remuneration (Recommendation 8.3)

The remuneration of senior executives of the Bega Cheese Group is reviewed on an annual basis. Details of the remuneration structure for senior executives are set out in the Remuneration Report.

Details of the remuneration for Directors for their non-executive roles and the basis for the determination of the remuneration for executive roles are also set out in the Remuneration Report.

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Consolidated Statement of Comprehensive Income

		Consolidated	
	Notes	2011 \$'000	2010 \$'000
Revenue	5	931,690	829,029
Cost of sales		(837,145)	(743,750)
Gross profit		94,545	85,279
Other income	5	7,533	8,106
Distribution expense		(25,343)	(24,016)
Marketing expense		(10,765)	(8,085)
Occupancy expense		(2,634)	(2,358)
Administration expense		(31,741)	(27,007)
Finance costs	6	(9,505)	(10,120)
Profit before income tax		22,090	21,799
Income tax (expense)/benefit	7	(397)	1,468
Profit for the year		21,693	23,267
Other comprehensive income:			
Cash flow hedges		3,442	(3,300)
Change in the fair value of other financial assets		10,474	98
Total other comprehensive income		13,916	(3,202)
Total comprehensive income for the year		35,609	20,065
Profit is attributable to:			
Equity holders of Bega Cheese Limited		17,005	18,223
Non-controlling interests		4,688	5,044
		21,693	23,267
Total comprehensive income for the year is attributable to:			
Equity holders of Bega Cheese Limited		30,065	15,909
Non-controlling interests		5,544	4,156
		35,609	20,065
		2011 Cents	2010 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:	31		
Basic earnings per share		15.65	17.63
Diluted earnings per share		15.65	17.63

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

Consolidated Balance Sheet

		Consolidated	
		2011 \$'000	2010 \$'000
Assets			
Current assets			
Cash and cash equivalents	30	20,587	18,169
Trade and other receivables	8	83,341	89,580
Other financial assets	9	2,489	819
Inventories	10	104,595	122,531
Assets held for sale	11	9	27
Total current assets		211,021	231,126
Non-current assets			
Other financial assets	12	37,010	199
Property, plant and equipment	13	197,866	193,796
Deferred tax assets	7	14,400	17,212
Intangible assets	14	1,788	2,170
Total non-current assets		251,064	213,377
Total assets		462,085	444,503
Liabilities			
Current liabilities			
Trade and other payables	15	117,764	112,465
Borrowings	16	22,006	63,953
Current tax liabilities		1,904	2,717
Provisions	17	18,872	16,745
Total current liabilities		160,546	195,880
Non-current liabilities			
Trade and other payables	18	148	704
Borrowings	19	94,300	68,659
Provisions	20	1,616	1,644
Total non-current liabilities		96,064	71,007
Total liabilities		256,610	266,887
Net assets		205,475	177,616
Equity			
Contributed equity	21	27,169	27,163
Reserves	22	46,057	31,907
Retained earnings		106,633	92,888
Capital and reserves attributable to owners of Bega Cheese Limited		179,859	151,958
Non-controlling interests	28	25,616	25,658
Total equity		205,475	177,616

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

Consolidated Statement of Changes in Equity

	Attributable to Equity Holders of Bega Cheese							Total \$'000
	Contributed Equity \$'000	Share Based Payment Reserve \$'000	Capital Profits Reserve \$'000	Hedging Reserve \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000	Non- Controlling Interests \$'000	
Consolidated								
Balance as at 1 July 2009	24,810	-	33,891	330	-	76,402	31,516	166,949
Profit for the year	-	-	-	-	-	18,223	5,044	23,267
Other comprehensive income for the year	-	-	68	(2,382)	-	-	(888)	(3,202)
Transactions with owners in their capacity as owners								
Contributions of equity	2,353	-	-	-	-	-	-	2,353
Dividends provided for or paid	-	-	-	-	-	(1,737)	(4,074)	(5,811)
Transactions with non-controlling interest	-	-	-	-	-	-	(5,940)	(5,940)
Balance as at 30 June 2010	27,163	-	33,959	(2,052)	-	92,888	25,658	177,616
Balance as at 1 July 2010	27,163	-	33,959	(2,052)	-	92,888	25,658	177,616
Profit for the year	-	-	-	-	-	17,005	4,688	21,693
Other comprehensive income for the year	-	-	-	2,586	10,474	-	856	13,916
Transactions with owners in their capacity as owners								
Contributions of equity	8	-	-	-	-	-	2,059	2,067
Buy-back of shares	(2)	-	-	-	-	-	(233)	(235)
Employee share scheme	-	1,090	-	-	-	-	-	1,090
Dividends provided for or paid	-	-	-	-	-	(3,260)	(3,121)	(6,381)
Transactions with non-controlling interest	-	-	-	-	-	-	(4,291)	(4,291)
Balance as at 30 June 2011	27,169	1,090	33,959	534	10,474	106,633	25,616	205,475

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

Consolidated Statement of Cash Flows

		Consolidated	
	Notes	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers inclusive of goods and services tax		980,246	863,366
Payments to suppliers and employees inclusive of goods and services tax		(893,851)	(797,736)
Interest and other costs of financing paid		(8,934)	(11,000)
Income taxes paid		(3,582)	(1,412)
Net cash inflow from operating activities	30	73,879	53,218
Cash flows from investing activities			
Interest received		456	438
Dividend received		327	-
Payments for property, plant and equipment	13	(24,817)	(20,741)
Payments for shares in listed companies		(22,235)	(1,211)
Proceeds from sale of property, plant and equipment		42	622
Proceeds from sale of shares in listed companies		-	1,423
Proceeds from sale of shares in unlisted companies		-	112
Net cash (outflow) from investing activities		(46,227)	(19,357)
Cash flows from financing activities			
Proceeds from borrowings		20,000	-
Repayment of borrowings		(35,000)	(33,367)
Repayment of leases		(1,394)	(514)
Loans made to non-controlling interests		(2,753)	(3,228)
Share capital subscribed by members		8	2,353
Share capital purchased back from members		(2)	-
Share capital subscribed by non-controlling interests		2,058	1,340
Share capital purchased back from non-controlling interests		(232)	(1,194)
Dividends paid to members		(3,260)	(1,737)
Dividends paid to non-controlling interests		(4,659)	(1,308)
Net cash (outflow) from financing activities		(25,234)	(37,655)
Net increase/(decrease) in cash and cash equivalents		2,418	(3,794)
Cash and cash equivalents at the beginning of the year		18,169	21,963
Cash and cash equivalents at the end of the year	30	20,587	18,169

The above Consolidated Statement of Cash Flows 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 financial statements are for the consolidated entity consisting of Bega Cheese and its subsidiaries. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 27 September 2011. The Directors have the power to amend and re-issue the financial statements.

a. Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

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

Historical Cost Convention

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

Critical Accounting Estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the financial statements are disclosed in the Note 3.

b. Principles of Consolidation

Joint Venture

The interest in a joint venture 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 joint venture are set out in Note 28.

Profits or losses on transactions establishing the joint venture 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 on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2011 and the results of all subsidiaries for the year then ended. Bega Cheese and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1i.).

b. Principles of Consolidation (cont.)

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bega Cheese.

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Balance Sheet respectively.

c. Segment Reporting

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

d. 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's functional and presentation currency.

Transactions and Balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

e. Revenue Recognition

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

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

Revenue is recognised for the major business activities as follows:

Sale of Goods and Disposal of Assets

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

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.

e. Revenue Recognition (cont.)

Dividends

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

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 recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

g. Government Grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

h. 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 16). 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 profit or loss 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 if there is no reasonable certainty that the Group will obtain ownership at the end of 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 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their value.

i. Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

j. Impairment of Assets

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 period.

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.

k. Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, 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.

l. Trade Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within 'administration 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 profit or loss.

m. 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.

n. Investments and Other Financial Assets

Classification

The Group classifies its investments in the following categories: loans and receivables, held to maturity investments 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 the end of each reporting period.

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 8) in the balance sheet.

Held to Maturity Investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payment and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in no current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

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 through other comprehensive income 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 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 are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Assets carried at Amortised Cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

o. 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 the end of each reporting period. 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.

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.

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 22. 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 other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within '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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised through comprehensive income, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

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

p. Property, Plant and Equipment

Property, plant and equipment 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 any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

p. Property, Plant and Equipment (cont.)

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 the end of each reporting period.

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

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

q. Intangible Assets

Brand Names

Brand names recognised by the Group have an indefinite useful life and are not amortised. Each reporting period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life for the assets. Such assets are tested for impairment in accordance with the policy stated in Note 14.

Water Rights

Water Rights are valued at cost less impairment losses, which is reviewed at least annually. Each reporting period, the asset is tested for impairment in accordance with the policy stated in Note 14.

r. 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.

s. 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 profit or loss 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.

t. Borrowing Costs

Borrowing costs are expensed as incurred.

u. 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.

v. Employee Benefits

Short-term Obligations

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

Other Long-term Employee Benefit Obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement Benefit Obligations

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

Share-Based Payments

During the year, Bega Cheese provided for share-based compensation benefits to be paid under the Employee Share Scheme. Information relating to this scheme is set out in Note 32. The fair value of shares granted under the Bega Cheese Employee Share Scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted.

w. Contributed Equity

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

x. Dividends

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

y. Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Company,
- By the weighted average number of ordinary shares outstanding during the financial year.

ii. Diluted earnings per share

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

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

z. Research and Development Costs

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

aa. 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.

ab. Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

ac. New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- i. AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet decided when to adopt AASB 9 and is currently assessing the impact of the changes.

- ii. Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011 which may affect the accounting treatment of its joint venture in terms of presentation, but not the amounts of the joint venture included in the results and net assets of the Group.

- iii. AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Bega Cheese is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the Group.

- iv. AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements and Interpretation 12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

ac. New Accounting Standards and Interpretations (cont.)

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. This standard may impact the Group's accounting treatment for the Capitol Chilled Foods Joint Venture, however a detailed analysis of the new guidance is yet to be completed.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

- v. AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

- vi. AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the group's current disclosures. The group intends to adopt the standards from 1 July 2011.

- vii. AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

- viii. AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

ad. Parent Entity Financial Information

The financial information for the parent entity, Bega Cheese, disclosed in Note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

- i. Investments in subsidiaries and joint venture entities
Investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of Bega Cheese.
- ii. Dividend income
Dividends receivable from subsidiaries are included in Bega Cheese's income statement. In the Group consolidated financial statements, these are eliminated, along with other intercompany transactions.

2. Financial Risk Management

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

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

a. Market Risk

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

Foreign Exchange Risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Group exports dairy products and is exposed to foreign exchange risk, primarily the US dollar and Japanese Yen. The risk is measured using sensitivity analysis and cash flow forecasting. Forward contracts are used to manage these risks.

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

	Consolidated						
	USD	JPY	EUR	USD	JPY	EUR	NZD*
	2011	2011	2011	2010	2010	2010	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade Receivables	17,250	-	103	15,077	-	103	-
Trade Payables	2,036	-	255	171	-	271	113
Forward Exchange Contracts							
Buy foreign currency (fair value hedges)	2,036	-	255	-	-	300	303
Sell foreign currency (cashflow hedges)	51,026	1,626	-	84,922	2,144	-	-
Sell foreign currency (fair value hedges)	14,348	-	-	17,158	-	-	-

* There was no exposure to this foreign currency as at 30 June 2011.

a. Market Risk (cont.)

Group Sensitivity

This is based on the financial instruments held on 30 June 2011, had the Australian dollar weakened or strengthened by 10% against the US dollar, the Euro and Japanese Yen, with all other variables held constant. The analysis is performed on the same basis for 2010. The Group sensitivity is detailed in the following table.

	Consolidated	
	2011	2010
	\$'000	\$'000
Equity		
AUD\$ strengthens 10% - increase / (decrease)	(3,234)	(5,037)
AUD\$ weakens 10% - increase / (decrease)	3,952	6,156

Cash Flow and Fair Value Interest Rate Risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Group policy is to maintain between 30 and 60 percent of its borrowings at a fixed rate using interest rate swaps. All borrowings were denominated in Australian dollars during 2011 and 2010.

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Liabilities		
Fixed Rate Instruments		
Bank overdrafts and loans	726	14,254
Variable Rate Instruments		
Bank overdrafts and loans	114,841	116,314
Interest rate swaps (notional principal amount)	(36,200)	(53,300)
Net Exposure on liabilities to interest risk	79,367	77,268
Assets		
Fixed Rate Instruments	1,992	2,565
Variable Rate Instruments	20,587	18,169

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

The Group analyses its interest rate exposure using various scenarios to simulate factors 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.

Based on the various scenarios, the Group 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 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 differences between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Group Sensitivity

At 30 June 2011, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$550,000 (2010: \$467,000) higher or lower for the Group's net profit.

a. Market Risk (cont.)

Price Risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group in listed entities. The Group manages its price risk by reviewing the risk across the operations of the whole Group in context of the different areas the business operates in. The table below summarises the impact of increases/decreases of the price of the securities on the Group's equity. The analysis is based on the number of shares held in WCB at 30 June 2011 of 8,089,870 and a closing price of \$4.55 per share on that date, net of tax.

	Consolidated	
	2011	2010
	\$'000	\$'000
Equity		
Share price increases by 5% - increase / (decrease)	1,288	-
Share price decreases by 5% - increase / (decrease)	(1,288)	-

b. Credit Risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in Note 8. For customers, the Group generally retains title over the goods sold until full payment is received. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit 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.

The maximum exposure to credit risk is as follows:

	Consolidated	
	2011	2010
	\$'000	\$'000
Cash and cash equivalents	20,587	18,169
Trade receivables	73,239	81,813
Other receivables	5,066	5,202
Vat loans to farmers	71	154
Advances to farmers	1,921	2,411
Fair value derivatives	2,489	819
Total	103,373	108,568

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.

b. Credit Risk (cont.)

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, as shown in the following table:

	Consolidated	
	2011	2010
	\$'000	\$'000
Not past due	56,182	63,843
Past due over 0-30 days	13,352	12,911
Past due over 30 days	3,705	5,059
Trade receivables at 30 June	73,239	81,813

For details of provisions held against trade receivables, see Note 8. All impaired balances are more than 60 days overdue.

c. Liquidity Risk

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

Financing Arrangements

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Undrawn facilities		
Expiring within one year	-	71,827
Expiring beyond one year	39,017	-
Total undrawn facilities	39,017	71,827
Drawn facilities	115,567	130,568
Total facilities	154,584	202,395

c. Liquidity Risk (cont.)

Maturities of Financial Liabilities

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

	0-12 months	1-2 years	2-5 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
At 30 June 2011					
Consolidated Non Derivatives					
Finance leases	(761)	-	-	(761)	(739)
Secured bank loans	(25,990)	(65,029)	(34,251)	(125,270)	(115,567)
Trade and other payables	(116,802)	-	-	(116,802)	(116,802)
Derivatives					
Financial liabilities	(314)	(126)	-	(440)	(475)
Inflows	69,247	-	-	69,247	53,304
Outflows	(66,521)	-	-	(66,521)	(51,449)
Total	(141,141)	(65,155)	(34,251)	(240,547)	(231,728)
Consolidated					
At 30 June 2010					
Consolidated Non Derivatives					
Finance leases	(1,374)	(761)	(20)	(2,155)	(2,044)
Secured bank loans	(67,271)	(18,838)	(55,429)	(141,538)	(130,568)
Trade and other payables	(108,947)	(150)	-	(109,097)	(109,097)
Derivatives					
Financial liabilities	(518)	(343)	(226)	(1,087)	-
Inflows	93,212	268	-	93,480	93,480
Outflows	(95,883)	(254)	-	(96,137)	(96,137)
Total	(180,781)	(20,078)	(55,675)	(256,534)	(244,366)

d. Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and 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. All fair value instruments are measured using quoted prices from active markets.

d. Fair Value Estimation (cont.)

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

- i. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- ii. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- iii. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

Consolidated	Level 1	Level 2	Level 3	Total
Period Ending 30 June 2011	\$'000	\$'000	\$'000	\$'000
Assets				
Financial assets at fair value through equity	36,669	140	201	37,010
Derivatives used for hedging	-	2,489	-	2,489
Total assets	36,669	2,629	201	39,499
Liabilities				
Derivatives used for hedging	-	(1,110)	-	(1,110)
Total liabilities	-	(1,110)	-	(1,110)
Period Ending 30 June 2010				
Assets				
Financial assets at fair value through equity	-	140	59	199
Derivatives used for hedging	-	819	-	819
Total assets	-	959	59	1,018
Liabilities				
Derivatives used for hedging	-	(4,072)	-	(4,072)
Total liabilities	-	(4,072)	-	(4,072)

3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 7 - Deferred tax assets, Note 10 - Inventory valuation and Note 29 - Subsequent events, allocation of costs relating to the IPO of Bega Cheese.

4. Segment Information

a. Description of Segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group has two reporting segments:

- i. Bega Cheese - which manufactures natural cheese, processed cheese, powders and butter and packages cheese products
- ii. Tatura Milk - which manufactures and packages cream cheese, powders and nutritionals.

b. Segment Information Provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2011 is as follows:

Total sales revenue by segment	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
Period Ending 30 June 2011	\$'000	\$'000	\$'000	\$'000
Total sales revenue by segment	651,794	308,035		959,829
Intersegment revenues	(9,180)	(18,959)	-	(28,139)
Revenues from external customers	642,614	289,076	-	931,690
EBITDA	29,807	23,526	(1,137)	52,196
Interest revenue	216	255	-	471
Interest expense	(6,736)	(2,769)	-	(9,505)
Depreciation and amortisation	(13,898)	(7,174)	-	(21,072)
Profit before tax	9,389	13,838	(1,137)	22,090
Income tax expense	(2,187)	1,790		(397)
Profit after tax	7,202	15,628	(1,137)	21,693
Total segment assets	340,503	162,916	(41,334)	462,085
Total segment liabilities	202,447	59,493	(5,330)	256,610
Purchases of property, plant and equipment	13,203	11,614	-	24,817
Other material items - IPO related expenses (before tax)	1,669	-	-	1,669
Period Ending 30 June 2010				
Total sales revenue by segment	564,794	270,094		834,888
Intersegment revenues	(2,820)	(3,039)	-	(5,859)
Revenues from external customers	561,974	267,055	-	829,029
EBITDA	29,896	23,094	(851)	52,139
Interest revenue	209	589	(382)	416
Interest expense	(6,691)	(3,811)	382	(10,120)
Depreciation and amortisation	(13,488)	(7,148)	-	(20,636)
Profit before tax	9,926	12,724	(851)	21,799
Income tax expense	(2,620)	4,088		1,468
Profit after tax	7,306	16,812	(851)	23,267
Total segment assets	301,151	185,040	(41,688)	444,503
Total segment liabilities	179,194	96,958	(9,265)	266,887
Purchases of property, plant and equipment	14,930	5,811	-	20,741

c. Other Segment Information

i. Segment Revenue

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Sales to External Customers in Australia		
Bega Cheese	551,440	476,608
Tatura Milk	82,535	82,249
Total sales from external customers in Australia	633,975	558,857
Sales to External Customers in Other Countries		
Bega Cheese	91,174	85,366
Tatura Milk	206,541	184,806
Total sales from external customers in other countries	297,715	270,172
Total sales from external customers	931,690	829,029

Revenues of approximately \$447,650,000 (2010:\$374,536,000) are concentrated in a small number of external customers. These revenues are attributable to the Bega Cheese segment.

Segment sales by product are as follows:

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
	\$'000	\$'000	\$'000	\$'000
Period Ending 30 June 2011				
Core	87,180	228,094	(28,139)	287,135
Fast moving consumer goods	564,614	-	-	564,614
Nutritionals	-	79,941	-	79,941
Sales by product	651,794	308,035	(28,139)	931,690
Period Ending 30 June 2010				
Core	51,026	196,781	(5,859)	241,948
Fast moving consumer goods	513,768	-	-	513,768
Nutritionals	-	73,313	-	73,313
Sales by product	564,794	270,094	(5,859)	829,029

ii. EBITDA

The Board of Directors assess the performance of the operating segments based on a measure of EBITDA. The eliminations relate to dividends paid by Tatura Milk to Bega Cheese.

iii. Segment Assets and Liabilities

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

5. Revenue

Revenue from continuing operations consisted of the following items:

	Consolidated	
	2011	2010
	\$'000	\$'000
Sales of Goods	931,690	829,029
Other Income		
Interest revenue	471	416
Royalties	5,280	5,159
Rental revenue	776	732
Dividends	327	6
Profit on sale of investment	-	405
Other	679	1,388
Total	939,223	837,135

6. Expenses

	Consolidated	
	2011	2010
	\$'000	\$'000
Loss on disposal of property, plant and equipment	33	133
Net foreign exchange losses	-	28
Operating lease minimum lease payments	574	1,665
Increase in inventory provisions	1,073	1,365
(Write back) of bad and doubtful debts	(6)	(269)
Depreciation of non-current assets	20,690	20,636
Impairment of intangible assets	382	-
Finance costs:		
Interest on bank loans	8,396	8,567
Interest on obligations under finance leases	52	151
Other interest expense	-	382
Other finance costs	1,057	1,020
Total Finance Costs	9,505	10,120

In previous years, a regional milk price premium was separately disclosed on the face of the Statement of Comprehensive Income. Given the change in the structure of the Company, this is now shown as part of the price of milk in cost of goods sold.

7. Income Tax

	Consolidated	
	2011 \$'000	2010 \$'000
a. Income Tax Expense		
Current tax charge	(1,378)	(5,721)
Deferred tax (expense)/benefit from the origination and reversal of temporary differences	(870)	7,189
Adjustments recognised in the current year in relation to current tax of prior years	1,851	-
Total income tax (expense) / benefit	(397)	1,468
b. Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
Profit from continuing operations before income tax	22,090	21,799
Tax (expense) at the Australian tax rate of 30% (2010-30%)	(6,627)	(6,539)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	138	103
Non-deductible expenses	(893)	(289)
Other assessable income	(313)	(1)
	(1,068)	(187)
Tax incentives	918	610
Other deductible expenses including dividends paid	4,520	2,806
Change in tax base for property, plant and equipment	-	47
Adjustments in respect of prior year	1,851	-
Tax losses not previously brought to account	-	4,690
Other	9	41
Total income tax (expense) / benefit	(397)	1,468

Tax incentives include additional tax allowances for research and development expenditure. Other deductible expenses includes payments made by Tatura Milk, such as dividends paid and repayment of government loans that are tax deductible whilst Tatura Milk retains its tax status as a co-operative. The adjustments in respect of prior year relate to the finalisation of the claim for the research and development tax concession.

	Consolidated	
	2011 \$'000	2010 \$'000
c. Amounts Recognised Through Other Comprehensive Income		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but through other comprehensive income in respect of:		
Fair value movement in investments	(4,101)	42
Movement in hedging reserve	(1,081)	(1,414)
Total amount recognised through other comprehensive income	(5,182)	(1,372)

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.

d. Movements in Deferred Tax

Movements in deferred tax in the period are detailed below:

Consolidated	Opening	Charged to	Charged to	Closing
Period Ending 30 June 2011	balance	income	equity	balance
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets				
Borrowing costs	65	2	-	67
Doubtful debts	12	(2)	-	10
Stock provisions	2,520	(1,090)	-	1,430
Sundry accrued expenses	3,253	(477)	-	2,776
Employee provisions	5,809	413	-	6,222
Leased assets	194	(154)	-	40
Employee share scheme	-	165	-	165
Tax losses brought to account	7,431	3,197	-	10,628
Total deferred tax assets	19,284	2,054	-	21,338
Deferred tax (liabilities)				
Fair value investment	-	-	(4,101)	(4,101)
Property, plant and equipment	(2,739)	349	-	(2,390)
Fair value of derivatives	667	(33)	(1,081)	(447)
Total deferred tax (liabilities)	(2,072)	316	(5,182)	(6,938)
Total deferred tax	17,212	2,370	(5,182)	14,400

Consolidated
Period Ending 30 June 2010

Deferred tax assets				
Borrowing costs	91	(26)	-	65
Doubtful debts	94	(82)	-	12
Stock provisions	3,363	(843)	-	2,520
Sundry accrued expenses	1,578	1,717	(42)	3,253
Employee provisions	5,023	786	-	5,809
Leased assets	97	97	-	194
Tax losses brought to account	5,006	2,425	-	7,431
Fair value derivative	(747)	-	1,414	667
Total deferred tax assets	14,505	4,074	1,372	19,951
Deferred tax (liabilities)				
Property, plant and equipment	(3,546)	807	-	(2,739)
Total deferred tax (liabilities)	(3,546)	807	-	(2,739)
Total	10,959	4,881	1,372	17,212

The recognition of tax losses as a deferred tax asset requires critical judgement in assessing the likelihood and extent of future utilisation.

8. Current Assets - Trade and Other Receivables

	Consolidated	
	2011 \$'000	2010 \$'000
Trade receivables	73,275	81,855
Allowance for impairment of receivables	(36)	(42)
	73,239	81,813
Goods and services tax (GST) receivable	4,998	4,463
Prepayments	3,044	462
Other debtors	68	277
Advances for vat loans	71	154
Advances to suppliers	1,921	2,411
Total	83,341	89,580

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

Prepayments includes an amount of \$2,152,000 (2010:\$Nil) relating to costs incurred in raising equity due to be charged against the equity funds raised on issuance. For further details see Note 29.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 8% (2010: 9%). Advances to suppliers are interest bearing loans to assist with short term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 10% (2010: 9%).

9. Current Assets - Other Financial Assets

	Consolidated	
	2011 \$'000	2010 \$'000
At fair value:		
Fair value of derivatives	2,489	819
Total	2,489	819

10. Current Assets - Inventories

	Consolidated	
	2011 \$'000	2010 \$'000
Raw materials and stores at cost	66,639	55,397
Finished goods at the lower of cost and net realisable value	37,956	67,134
Carrying amount of inventories at lower of cost or net realisable value	104,595	122,531

The write-down of inventories to net realisable value requires critical judgement in assessing future commodity prices.

11. Current Assets - Assets Held for Sale

	Consolidated	
	2011 \$'000	2010 \$'000
At lower of cost or fair value less costs to sell		
Property plant and equipment	9	27
Total	9	27

The property, plant and equipment is awaiting sale.

12. Non-Current Assets - Other Financial Assets

	Consolidated	
	2011 \$'000	2010 \$'000
Available for sale financial assets		
Listed equity securities	36,809	140
Unlisted equity securities	201	59
Total	37,010	199

In the prior year, a \$140,000 reversal of impairment of an available for sale asset was recognised in other comprehensive income. The consolidated entity's exposure to credit, currency and interest rate risks related to investments is disclosed in Note 2. Listed equity securities includes Bega Cheese's investment in WCB. A 15% holding in WCB was acquired on 12 November 2011 for \$22,171,000. Unlisted securities are traded in inactive markets and includes the 25% investment in the holding company of the Joint Venture, CCFA. Further details on CCFA are contained in Note 28. Refer to Note 2 for further information about the methods used and assumptions applied in determining fair value.

13. Non-Current Assets - Property, Plant and Equipment

	Consolidated	
	2011 \$'000	2010 \$'000
Land and buildings		
At cost	82,223	79,973
Accumulated depreciation	(21,668)	(18,921)
Total land and buildings	60,555	61,052
Plant and equipment		
At cost	309,686	292,680
Accumulated depreciation	(189,788)	(173,088)
Total plant and equipment	119,898	119,592
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,335)	(3,642)
Total leased assets	521	1,214
Construction in progress	16,892	11,938
Total property, plant and equipment	197,866	193,796

13. Non-Current Assets - Property, Plant and Equipment (cont.)

The movements in property, plant and equipment are:

Consolidated	Construction in progress \$'000	Land and buildings \$'000	Plant and equipment \$'000	Leased assets \$'000	Total \$'000
Period Ending 30 June 2011					
Balance at the beginning of the period	11,938	61,052	119,592	1,214	193,796
Capital expenditure	24,817	-	-	-	24,817
Disposals	-	(15)	(42)	-	(57)
Depreciation	-	(2,753)	(17,244)	(693)	(20,690)
Transfers	(19,863)	2,271	17,592	-	-
Balance at the end of the financial period	16,892	60,555	119,898	521	197,866
Period Ending 30 June 2010					
Balance at the beginning of the period	5,557	62,847	123,926	1,908	194,238
Capital expenditure	20,741	-	-	-	20,741
Disposals	-	(236)	(311)	-	(547)
Depreciation	-	(2,680)	(17,262)	(694)	(20,636)
Transfers	(14,360)	1,121	13,239	-	-
Balance at the end of the financial period	11,938	61,052	119,592	1,214	193,796

14. Non-Current Assets - Intangible Assets

	Consolidated	
	2011 \$'000	2010 \$'000
Brand	405	405
Water rights	1,383	1,765
Total intangible assets	1,788	2,170
Movement in intangibles		
Balance at the beginning of the financial period	2,170	2,170
Impairment of water rights	(382)	-
Balance at the end of the financial period	1,788	2,170

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

Water rights were acquired as part of the acquisition of the Strathmerton facility. Impairment was tested by reference to third party market valuation.

15. Current Liabilities - Trade and Other Payables

	Consolidated	
	2011	2010
	\$'000	\$'000
Trade payables	78,357	66,849
Accrued charges and sundry creditors	38,445	42,098
Total payables	116,802	108,947
Fair value of derivatives	962	3,518
Total	117,764	112,465

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.

16. Current Liabilities - Borrowings

	Consolidated	
	2011	2010
	\$'000	\$'000
Current - at amortised cost		
Secured term loans	21,267	62,668
Finance lease liabilities	739	1,285
Total	22,006	63,953

For further details on borrowings see Note 19.

17. Current Liabilities - Provisions

	Consolidated	
	2011	2010
	\$'000	\$'000
Employee benefits	18,872	16,745
Total	18,872	16,745

18. Non-Current Liabilities - Trade and Other Payables

	Consolidated	
	2011	2010
	\$'000	\$'000
Other trade payables	-	150
Derivatives	148	554
Total	148	704

19. Non-Current Liabilities - Borrowings

	Consolidated	
	2011 \$'000	2010 \$'000
Secured term loans	94,300	67,900
Finance lease liabilities	-	759
Total	94,300	68,659

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 in the case of Bega Cheese, of the Group
- 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.

20. Non-Current Liabilities - Provisions

	Consolidated	
	2011 \$'000	2010 \$'000
Employee benefits	1,616	1,644
Total	1,616	1,644

The number of employees in the Group at 30 June 2011 was 1,334 (2010: 1,286).

21. Contributed Equity

	Consolidated	
	2011 \$'000	2010 \$'000
a. Share Capital		
Ordinary shares fully paid	27,169	27,163

b. Movement in Share Capital Value

	A Class Shares \$'000	B Class Shares \$'000	Total Shares \$'000
Ordinary shares on issue at 1 July 2009	19,997	4,813	24,810
Subscribed by shareholders	2,353	-	2,353
Transfers between classes	(855)	855	-
Ordinary shares on issue at 30 June 2010	21,495	5,668	27,163
Ordinary shares on issue at 1 July 2010	21,495	5,668	27,163
Subscribed by shareholders	8	-	8
Purchased back from shareholders	(2)	-	(2)
Transfers between classes	(767)	767	-
Ordinary shares on issue at 30 June 2011	20,734	6,435	27,169

c. Movement in Number of Shares

	A Class Shares Number '000	B Class Shares Number '000	Total Shares Number '000
Ordinary shares on issue at 1 July 2009	19,997	4,813	24,810
Subscribed by shareholders	2,353	-	2,353
Transfers between classes	(855)	855	-
Ordinary shares on issue at 30 June 2010	21,495	5,668	27,163
Ordinary shares on issue at 1 July 2010	21,495	5,668	27,163
Subscribed by shareholders	8	-	8
Purchased back from shareholders	(2)	-	(2)
Transfers between classes	(767)	767	-
Share split	62,257	19,251	81,508
Ordinary shares on issue at 30 June 2011	82,991	25,686	108,677

d. Classes of Ordinary Shares

Bega Cheese has two classes of ordinary shares; 'A Class' shares, which are held by suppliers, and 'B Class' shares which are held by former suppliers. Voting control of Bega Cheese 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 21 April 2011, all of the 'A Class' shares and 'B Class' shares on issue were subject to a four-for-one share split. This share split increased the number of shares on issue from 27,169,232 to 108,676,928 as at 21 April 2011. This share split did not change the relative ownership of Bega Cheese. However, the share split, by its nature, had the effect of reducing financial indicators measured against the number of shares, including earnings per share, net tangible assets and dividends per share.

On 18 July 2011, all 'A Class' shares and 'B Class' shares were converted to ordinary shares on a one-to-one basis as part of Bega Cheese adopting a new Constitution on that date to ready the Company for listing on the ASX.

As the Company does not have a right to unconditionally repurchase the shares, the shares are classified in equity.

e. Capital Risk Management

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

22. Reserves

a. Reserves

Share based payment reserve
Capital profits reserve
Hedging reserve
Fair value reserve

Consolidated	
2011 \$'000	2010 \$'000
1,090	-
33,959	33,959
534	(2,052)
10,474	-
46,057	31,907

b. 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. The fair value reserve is used to record gains or losses on fair value movements on investments held-to-maturity. The share based payment reserve is used to recognise the fair value of shares due to be issued to employees by the Company under the Tax Exempt Plan and the Incremental Share Plan. For further details see Note 32.

23. Dividends to Shareholders

Recognised amounts:

2010 Final dividend of 7 cents (2009 - 7 cents)

2011 Final dividend of 1.25 cents

Unrecognised amounts:

2010 Final dividend of 7 cents

Value of the dividend franking accounts

Company	
Full year 2011 \$'000	Full year 2010 \$'000
1,901	1,737
1,359	-
-	1,901
3,234	913

The dividends paid in 2011 and 2010 were fully franked.

The 2010 final dividend of 7 cents per share was based on the pre share split number of shares on issue. If the 2010 final dividend had been applied across the post share split shares on issue, the dividend would have been in the order of 1.75 cents per share.

24. Remuneration of Auditors

	Consolidated	
	2011	2010
	\$	\$
Audit Services		
PricewaterhouseCoopers Australian firm - Audit of financial report	278,520	265,000
PricewaterhouseCoopers Australian firm - Review of financial report	127,000	-
Non-PricewaterhouseCoopers Australian firm - Audit and review of financial report	10,000	10,000
Non-audit Services		
PricewaterhouseCoopers Australian firm - Other services	648,055	20,000

The non-audit services provided to the Group by PricewaterhouseCoopers during the year ended 30 June 2011 were for advice relating to the IPO.

25. 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 2011 which result in the need to raise additional liabilities of the Group as at 30 June 2011.

26. Commitments

	Consolidated	
	2011	2010
	\$'000	\$'000
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		
Plant and equipment	7,074	9,035

b. Lease Commitments - Group as Lessee

Non-cancellable operating leases

Operating leases of \$1,049,000 (2010: \$1,082,000) 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	
	2011	2010
	\$'000	\$'000
Plant and machinery:		
Within one year	615	596
Between one and five years	553	577
Total	1,168	1,173

c. Finance Leases

	Consolidated	
	2011	2010
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:		
Within one year	761	1,374
Between one and five years	-	781
Minimum lease payments	761	2,155
Future finance charges	(22)	(111)
Total lease liabilities	739	2,044
Representing lease liabilities		
Current (Note 16)	739	1,285
Non-current (Note 19)	-	759
Total lease liabilities	739	2,044

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 \$521,000 (2010: \$1,214,000). In the event of default, the leased assets revert to the lessor.

27. Related Party Transactions

a. Terms and Conditions of Related Party Transactions

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

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

	Consolidated	
	2011	2010
	\$	\$
Sales made to CCFA	10,361,000	8,955,000
Rent paid by CCFA to Bega Cheese	176,400	169,300

Bega Cheese also rented property, plant and equipment to the joint venture on normal commercial terms. Further details of the joint venture are included in Note 28.

b. Key Management Personnel Remuneration

	Consolidated	
	2011	2010
	\$	\$
Short term employee benefits	2,369,814	2,211,144
Long term employee benefits	175,147	146,468
Total	2,544,961	2,357,612

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

c. Transactions with Directors and Director Related Entities

Shareholdings of the Directors of ordinary 'A Class' shares are as follows:

	Company	
	2011 Number	2010 Number
Barry Irvin	3,004,984	751,246
Max Roberts	1,675,000	418,750
Richard Parbery	2,664,012	666,003
Tom D'Arcy	1,280,276	320,069
Richard Platts	3,537,956	884,489
Peter Margin	-	-

On 21 April 2011, all of the shares on issue were subject to a four-for-one share split. This share split accounts for the entire movement in the number of shares held by Directors between 30 June 2010 and 30 June 2011.

During the year ended 30 June 2010 Bega Cheese made an offer of 'A Class' shares to former shareholders which provided the opportunity to take up a pre-determined number of 'A Class' shares. Each of the Directors took up their entitlement under that offer. Details of non-executive Director remuneration are included in the Remuneration Report.

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

	Company	
	2011 \$	2010 \$
Milk payments made by Bega Cheese	6,874,948	6,455,268
Amounts outstanding at year end	82,669	63,094

Tatura Milk has a 'collaboration' agreement with the Gardiner Foundation to undertake research and development activities around energy efficiencies. The Gardiner Foundation has secured a government grant and provided \$0.3m in funding to Tatura Milk in order to undertake a joint project. The Chairman of Bega Cheese, Barry Irvin, is a Director of the Gardiner Foundation. The Bega Cheese Group purchases dairy products from WCB on normal commercial terms, which during the year ended 30 June 2011 totalled \$7,405,032 (2010: \$3,383,107). The Chairman of Bega Cheese, Barry Irvin, became a Director of WCB in November 2010.

28. Subsidiary and Joint Venture

	Country of Incorporation	Class of Shares	2011 Holding %	2010 Holding %
Tatura Milk Industries Limited	Australia	Ordinary	70	74
Capitol Chilled Foods (Australia) Pty Ltd	Australia	Ordinary	25	25

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

Tatura Milk

Tatura Milk non-controlling shareholders hold Redeemable Preference ('RP') shares in that company. During 2011, the Board of Tatura Milk facilitated a voluntary share purchase scheme under which holders of Tatura Milk RP shares were eligible to subscribe for additional Tatura Milk RP shares. The purpose of the share scheme was to provide RP shareholders the opportunity to restore their total shareholding in Tatura Milk to 30% being the percentage they held immediately following Bega Cheese's investment in Tatura Milk in April 2007. As a result of the scheme, Tatura Milk RP shareholders have restored their total holding in Tatura Milk to approximately 70%. The Group results in 2011 include a consolidation of the results in Tatura Milk, of which 70% is attributable to the equity holders of Bega Cheese. Further details of performance of the subsidiary are included in Note 4.

28. Subsidiary and Joint Venture (cont.)

CCFA

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

	CCFA	
	2011 \$'000	2010 \$'000
Income	13,772	13,329
Expenses	(11,262)	(10,967)
Profit after tax	2,510	2,362
Current assets	2,880	3,245
Long term assets	723	724
Total assets	3,603	3,969
Total current liabilities	1,781	2,357

29. 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 other than the items set out below:

- On 9 March 2011 Bega Cheese and Tatura Milk signed a Merger Principles Agreement (MPA) under which the parties agreed in principle to implement a 100% merger of the companies by way of Bega Cheese acquiring all of the redeemable preference shares in Tatura Milk so as to make Tatura Milk a wholly owned subsidiary of Bega Cheese. The MPA identifies that the proposed merger would be implemented by way of a scheme of arrangement (which would require approvals from the court and the Tatura Milk redeemable preference shareholders), with the holders of redeemable preference shares in Tatura Milk receiving ordinary shares in Bega Cheese as consideration for the acquisition of their shares. The MPA also anticipates that Bega Cheese and the supplier directors of Tatura Milk would seek to agree the detailed terms of the merger, with those details to be recorded in a Merger Implementation Agreement, before the actual merger process is commenced. Bega Cheese and the supplier directors of Tatura Milk are engaged in ongoing negotiations in relation to the terms of the proposed merger, but as at the date on which these financial statements were authorised for issue, no Merger Implementation Agreement has been signed. Accordingly it is not possible to estimate the financial effect of the proposed merger at this time.
- In April 2011 the shareholders of Bega Cheese resolved to approve changes to the Constitution. The new Constitution was required to enable Bega Cheese to list on the ASX. The Bega Cheese prospectus was lodged on 18 July 2011, and as such the conversion of 'A Class' shares and 'B Class' shares to ordinary shares and the adoption of the new Constitution took effect from 18 July 2011.
- On 18 July 2011 Bega Cheese issued a prospectus inviting the public and employees of Bega Cheese to subscribe for shares. Under the offer 17,500,000 shares were issued to the public at an issue price of \$2.00 per share. In addition 532,975 shares were issued to staff of Bega Cheese under the Tax Exempt Plan and the Incremental Plan for no consideration. In total 18,032,975 ordinary shares were issued for consideration totalling \$35,000,000, with the shares being issued and the cash proceeds from the issue of shares being received in August 2011. A further 362,500 shares are to be issued in August 2012 under the Retention Award. Bega Cheese incurred costs normally associated with issuing shares and listing on the ASX leading up to and subsequent to 30 June 2011. At 30 June 2011, expenses of \$2,746,000 had been incurred, of which \$2,152,000 are attributed to the new capital raising and are due to be written off against the equity raised on listing. Other expenses related to the IPO include share based payments. For further detail, see Note 32.
- Bega Cheese formally listed on the ASX on 19 August 2011, with ordinary shares in Bega Cheese being tradable on the ASX from that date.
- Following the issue of shares under the prospectus Bega Cheese had 126,709,903 shares on issue with a total paid up value of \$62,169,232.

29. Subsequent Events (cont.)

- Since 30 June 2011 the market value of shares in WCB has decreased from \$4.55 per share on 30 June 2011, resulting in a decrease in the fair value of Bega Cheese's investment in WCB. Further information on price risk is given in Note 2.
- On 15 July 2011, the bank facilities agreed pre 30 June 2011 were amended. This had the effect of reclassifying to non-current borrowings of \$12,500,000 that were included in current borrowings at 30 June 2011.

30. Notes to the Consolidated Statement of Cash Flows

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	
	2011 \$'000	2010 \$'000
a. Reconciliation of Cash and Cash Equivalents		
Cash	20,587	18,169
Total	20,587	18,169
b. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities		
Profit after income tax	21,693	23,267
Adjustments for non-cash items:		
Depreciation of non-current assets	20,690	20,636
Impairment of intangible assets	382	-
Loss/(profit) on sale of property, plant and equipment	33	133
investments	-	(205)
Interest income received and receivable	(456)	(438)
Change in value of derivatives	(110)	(2,741)
Interest payable on leases	90	83
Dividend receivable	(327)	-
Discount on deferred consideration	-	382
Non-cash employee benefit expenses - share based payments	1,090	-
Changes in operating assets and liabilities:		
(Increase) / decrease in assets:		
Trade and other debtors and GST recoverable	8,821	5,625
Inventories	17,936	(18,473)
Prepayments	(2,582)	139
Increase / (decrease) in liabilities:		
Trade creditors	11,358	11,867
Accrued expenses and sundry creditors	(3,653)	12,844
Increase/(decrease) in other tax balances	(3,185)	(2,881)
Changes in provisions	2,099	2,980
Net cash flow from operating activities	73,879	53,218

31. Earnings per Share

	Consolidated	
	2011 Cents	2010 Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent		
Basic earnings per share	15.65	17.63
Diluted earnings per share	15.65	17.63
	2011 Number	2010 Number
Weighted average of number of shares used as the denominator in calculating basic earnings per share	108,676,928	103,349,016
Adjustments for calculation of diluted earnings per share - Employee share scheme	2,988	-
Weighted average of number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	108,679,916	103,349,016
	2011 \$'000	2010 \$'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	17,005	18,223

The weighted average number of shares used as the denominator for 2010 has been restated as a result of the share split that occurred in April 2011.

32. Share Based Payments

In 2011, the Board established two employee share plans: the Tax Exempt Plan and the Incremental Plan. The aim of the plans was to reward staff loyalty by a one-off issue of shares on the listing of Bega Cheese on the ASX. Shares under both schemes were issued for no consideration.

Awards made under the Tax Exempt Plan cannot be disposed of until the earlier of three years after the date of which they were issued and the date on which the holder ceases to be an employee of Bega Cheese.

The Incremental Plan has two elements, being a Loyalty Award and a Retention Award. Shares granted under the Loyalty Award were determined by the Board on considerations such as the relevant employee's position within and period of service with Bega Cheese. These shares are not subject to any restrictions on sale.

Under the Retention Award, the Board will utilise the Incremental Plan to allocate rights to certain senior executives to subscribe for and be issued with new shares in twelve months' time from the listing date for no monetary payment, subject to them remaining Bega Cheese Employees.

32. Share Based Payments (cont.)

The table below summaries the number of shares and value of share based payment transactions:

	Consolidated	
	2011	2011
	Number '000	\$'000
Expense per profit and loss		
Tax Exempt Plan	275	550
Incremental Plan		
Loyalty Award	270	540
Retention Award	-	-
Total expense of shares offered to Bega Cheese employees	545	1,090
Entitlements not taken up by employees	(12)	(24)
Shares issued to employees on listing	533	1,066

33. Parent Entity Financial Information

a. Summary Financial Information

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

	Bega Cheese	
	2011	2010
	\$'000	\$'000
Current assets	137,333	130,682
Total assets	340,503	301,150
Current liabilities	118,713	114,925
Total liabilities	202,447	179,194
Shareholder's equity		
Issued capital	27,169	27,163
Reserves		
Share based payment reserve	1,090	-
Capital profits reserve	32,563	32,563
Hedging reserve	(332)	(921)
Fair value reserve	10,474	-
Retained Earnings	67,092	63,151
	138,056	121,956
Profit after tax for the year	7,202	7,307
Total comprehensive income	18,263	7,065

b. Guarantees Entered Into by Parent Entity

The parent entity has not provided any financial guarantees in relation to the debts of its subsidiary or joint venture.

c. Contingent Liabilities of the Parent Entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

d. Contractual Commitments for the Acquisition of Property, Plant or Equipment

As at 30 June 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$2,030,000 (2010:\$6,849,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Directors' Declaration

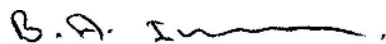
In the Directors' opinion:

- a. the financial statements and notes set out on pages 27 to 66 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 consolidated entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board

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

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



Barry Irvin
Executive Chairman



Max Roberts
Director

Bega
27 September 2011



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 sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for the Bega Cheese 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of Bega Cheese Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 19 of the Directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



PJ Carney
Partner

Melbourne
27 September 2011

Shareholder Information

This section contains information which is not included elsewhere in this report that is required to be included in the Annual Report by the ASX Listing Rules.

Distribution of Shareholders

The distribution of shareholders as at the 15 September 2011 are as follows:

Range	Number
1 to 1,000	1,300
1,001 to 5,000	1,128
5,001 to 10,000	244
10,001 to 100,000	205
100,001 and Over	135

There were 162 holders of less than a marketable parcel of ordinary shares.

Top 20 Shareholders

As at 15 September 2011, the names of the 20 largest shareholders are listed below:

Name	Number of Shares	% of Total Shares on Issue
Judy Kimber & Ken Kimber	5,014,984	3.96%
RBC Dexia Investor Services Australia Nominees Pty Ltd	4,674,426	3.69%
Paewai Pty Ltd	4,194,364	3.31%
Mr Richard Ellwyn Platts	3,537,956	2.79%
Aljo Pastoral Pty Ltd	3,004,984	2.37%
Michelle Moffitt & Clifford Moffitt	2,900,564	2.29%
R & R Apps Pty Ltd	2,823,972	2.23%
Jerang Pty Ltd	2,664,012	2.10%
Telstar Holsteins Pty Ltd	2,492,564	1.97%
Christine & Murray Beresford & Beverley Game	2,179,288	1.72%
William Taylor & Rodney Neil Taylor & Barry James Taylor	1,975,136	1.56%
Peter Shearer	1,881,408	1.48%
Norman George Pearce & Narelle Gay Pearce	1,876,388	1.48%
Norma Lucas & Guy Lucas	1,799,996	1.42%
Jelgowry Pty Ltd	1,692,852	1.34%
Sue Roberts & Max Roberts	1,675,000	1.32%
Caroline Cochrane & Brian Cochrane	1,652,264	1.30%
Mary Guthrey & Stephen Guthrey	1,612,156	1.27%
Kameruka Estates Limited	1,610,000	1.27%
Robyn Love & Don Love	1,561,080	1.23%
Total	50,823,394	40.10%

Substantial Shareholdings

Consistent with the maximum shareholding provisions set out below, no shareholder is a known 'substantial holder in the entity' as defined by the ASX Listing Rules.

Voting Rights

The voting rights attached to each class of Share are set out in Note 21.

Other Matters

The Company shares are not listed on any stock exchange other than the ASX. The Company has not issued any equity securities as defined by the ASX Listing Rules that are of a class of unquoted equity securities within the meaning of Listing Rule 4.10.16. There is no current on-market buy-back.

Summary of Bega Cheese Maximum Shareholding Provisions

The Constitution of Bega Cheese contains provisions that set maximum shareholdings for a period of up to 10 years after the date on which Bega Cheese was admitted to the official list of ASX (Listing Date). The Listing Date was 16 August 2011. The Constitution also includes disenfranchisement and divestment provisions that enable the Company to enforce the maximum shareholding provisions. The following sets out a summary of those provisions.

Shareholding Limit

Under the Company's Constitution, no person, together with his or her associates (as defined in the Corporations Act), can have a relevant interest (as defined in the Corporations Act) in a number of Bega Cheese shares (shares) that exceeds the Shareholding Limit.

The Shareholding Limit during the period up to and including the second anniversary of the Listing Date is 5% of the total number of shares (5% Ceiling).

During the period commencing on the day after the second anniversary of the Listing Date up to and including the fifth anniversary of the Listing Date, the Shareholding Limit is 10% of the total number of shares (10% Ceiling).

The Shareholding Limit provisions will automatically cease to apply after the fifth anniversary of the Listing Date unless the continuation of the provisions is approved by ordinary resolution of the shareholders. Bega Cheese must seek this approval prior to the fifth anniversary of the Listing Date.

If shareholders approve its continuation, the Shareholding Limit during the period from the fifth anniversary of the Listing Date up to and including the tenth anniversary of the Listing Date will be 15% of the total number of shares (15% Ceiling).

The following table summarises the Shareholding Limit during the periods referred to above.

Period	Shareholding Limit
Until 16 August 2013	5% Ceiling
17 August 2013 until 16 August 2016	10% Ceiling
17 August 2016 until 2021	15% Ceiling if shareholders approve its continuation

The Shareholding Limit and the related provisions of the Constitution will therefore cease to apply on the earlier of:

- the Constitution of the Company being amended by special resolution of the shareholders to remove the Shareholding Limit provisions;
- 16 August 2016, unless the continuation of the Shareholding Limit provisions is approved by ordinary resolution of shareholders prior to that date;
- 16 August 2021, if the continuation of the Shareholding Limit provisions is approved by ordinary resolution of shareholders prior to 16 August 2016.

Disenfranchisement / Divestment

If a person holds shares in excess of the Shareholding Limit (Excess Shares), all rights to vote and receive dividends on the Excess Shares are suspended while the breach of the Shareholding Limit continues.

A Shareholder who is paid a dividend or other distribution on Excess Shares is required to refund that dividend or distribution to the Company on receipt of a written notice from the Company. The Company will have a first and paramount lien on the Excess Shares on which the dividend or distribution was paid and may enforce that lien as if the amount repayable were an amount unpaid on those shares.

The Directors may also, by written notice, require a Shareholder to dispose of Excess Shares. If the Shareholder does not comply with this requirement within 28 days of the date of the notice, the Directors are authorised to sell the Excess Shares specified in the notice in such manner and on such terms as they determine in their absolute discretion. The Company will distribute the proceeds of the sale to the Shareholder after paying the associated costs.