



ASX ANNOUNCEMENT

Bega Cheese Limited

Release of Preliminary Results for the Year Ended 30 June 2012

Attached is Appendix 4E and the Annual Report including the full year statutory accounts for Bega Cheese Limited for the year ended 30 June 2012.

A handwritten signature in black ink that reads "B. G. Kelly". The signature is written in a cursive style with a long, sweeping tail on the letter "y".

Brett Kelly
Company Secretary

24 August 2012

For further information please contact

Brett Kelly
Company Secretary
Bega Cheese Limited
02 6491 7777

www.begacheese.com.au



Bega Cheese Limited
4E Preliminary Final Report
30 June 2012

Lodgement date
24 August 2012

This financial report does not include all of the notes of the type normally included in the full year statutory accounts. Accordingly, it is recommended that this Report be read in conjunction with the Annual Report for the year ended 30 June 2012 and any public announcements made by Bega Cheese Limited ("Bega Cheese") during the year ended 30 June 2012 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

1. Reporting Period

The reporting period is the year ended 30 June 2012 with the previous corresponding year to 30 June 2011. The information in this report is based on accounts which have been audited.

2. Results for Announcement to the Market

For the year ended 30 June 2012 Bega Cheese Group delivered a net profit after tax of \$17.5m and completed an Initial Public Offering ("IPO") in August 2011.

	2012	2011	Change Amount	Change Percentage	Up/ Down
Consolidated	\$'000	\$'000	\$'000	%	
Revenue from ordinary activities	926,752	931,690	(4,938)	(1)	Down
EBITDA	56,773	52,196	4,577	9	Up
Profit after tax	20,429	21,693	(1,264)	(6)	Up
Profit after tax attributable to shareholders	17,534	17,005	529	3	Up
	cents	cents	cents		
Net tangible assets per share	161.63	187.42	(26)	(14)	Down

	Cents per Security	Franked cents per Security@ 30 % tax
Current Period		
2012 Final dividend - payable	3.50	3.50
2012 Interim dividend - paid	3.00	3.00
Previous Period		
2011 Final dividend	1.25	1.25

	Record Date
Record date for determining entitlements to Dividends	
2012 Final dividend	4 September 2012
Date of payment of dividends	
2012 Final dividend	19 September 2012

The Bega Cheese Group Dividend Reinvestment Plan is suspended.

3. Explanation of Results

The Chief Executive Officer's Review of Operations and Activities in the attached Annual Report provides an explanation of the results.

Ordinary Shares issued as at 30 June 2012 are 151,497,170 (2011: 108,676,928). The reduction in net tangible assets per share largely relates to the increase in the number of shares on listing and issued in consideration for the merger with Tatura Milk. If the weighted average number of shares was used in the calculation, as per earnings per share, net tangible assets would have been 178.87 cents (2011: 187.42).

4. Other Information Required

Please refer to the attached Annual Report including the full year statutory accounts for other information required.

2012 ANNUAL REPORT

BEGA CHEESE LIMITED



Bega
SINCE
1899



The images included in this Annual Report represent a selection of Bega Cheese Group's products, locations, staff, suppliers and their farms. The following have been featured:

Cover:

Ron Apps
Coburg facility

Page 7:

Tatura Milk employee, Tony Parish, sampling product

Page 9:

Tatura Milk facility
Members of the Ubrihien family
Tatura Milk employee, Sherrell Russo, working on the Bulk Cream Cheese Line

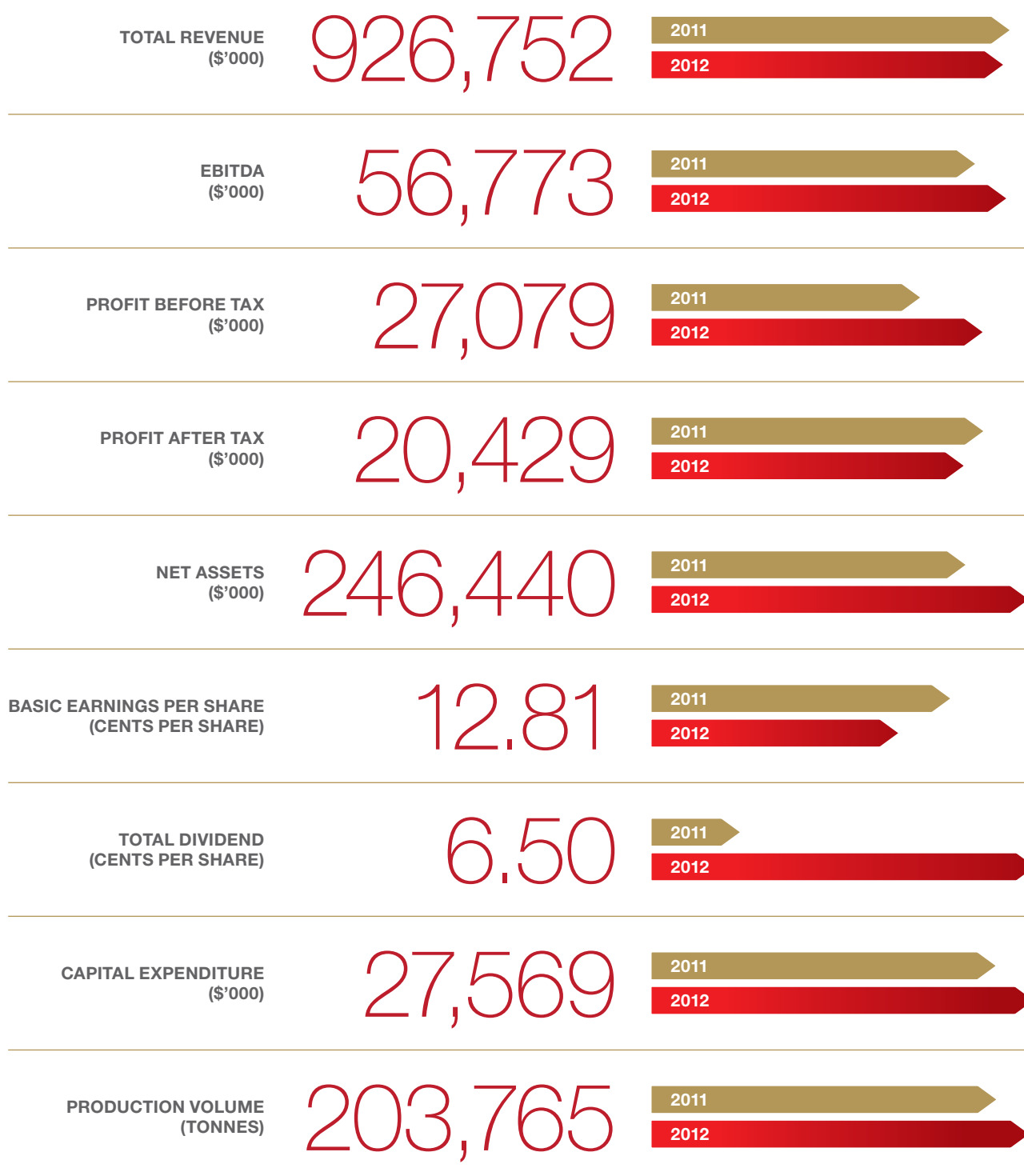
Page 13:

Members of the Apps family

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Performance highlights



Overview of Bega Cheese Group



Since establishing the iconic Bega brand in 1899, Bega Cheese has expanded to become the Bega Cheese Group, an integrated Australian dairy company with diversified operations and a broad customer base. The Bega Cheese Group has three core business areas:

1. CORE DAIRY PRODUCTS MANUFACTURING:

- Cheddar, mozzarella and cream cheeses, milk powders, butter and cream products
- These products target both domestic and international markets for dairy ingredients and foodservice products.

2. FAST MOVING CONSUMER GOODS ("FMCG") BUSINESS FOCUSSED ON PACKAGING NATURAL CHEESE AND MANUFACTURING PROCESSED CHEESE, INCLUDING PRODUCTS UNDER THE ICONIC BEGA BRAND:

- Cutting, packaging and processing of cheese products into retail packs for customers including Fonterra, Kraft and Coles
- Licensing to Fonterra, in return for a royalty, the exclusive right to use the Bega brand trade marks in Australia on natural and processed cheddar cheese, string cheese and butter products
- Direct marketing and sales of Bega products internationally.

3. NUTRITIONAL FOOD PRODUCTS MANUFACTURING:

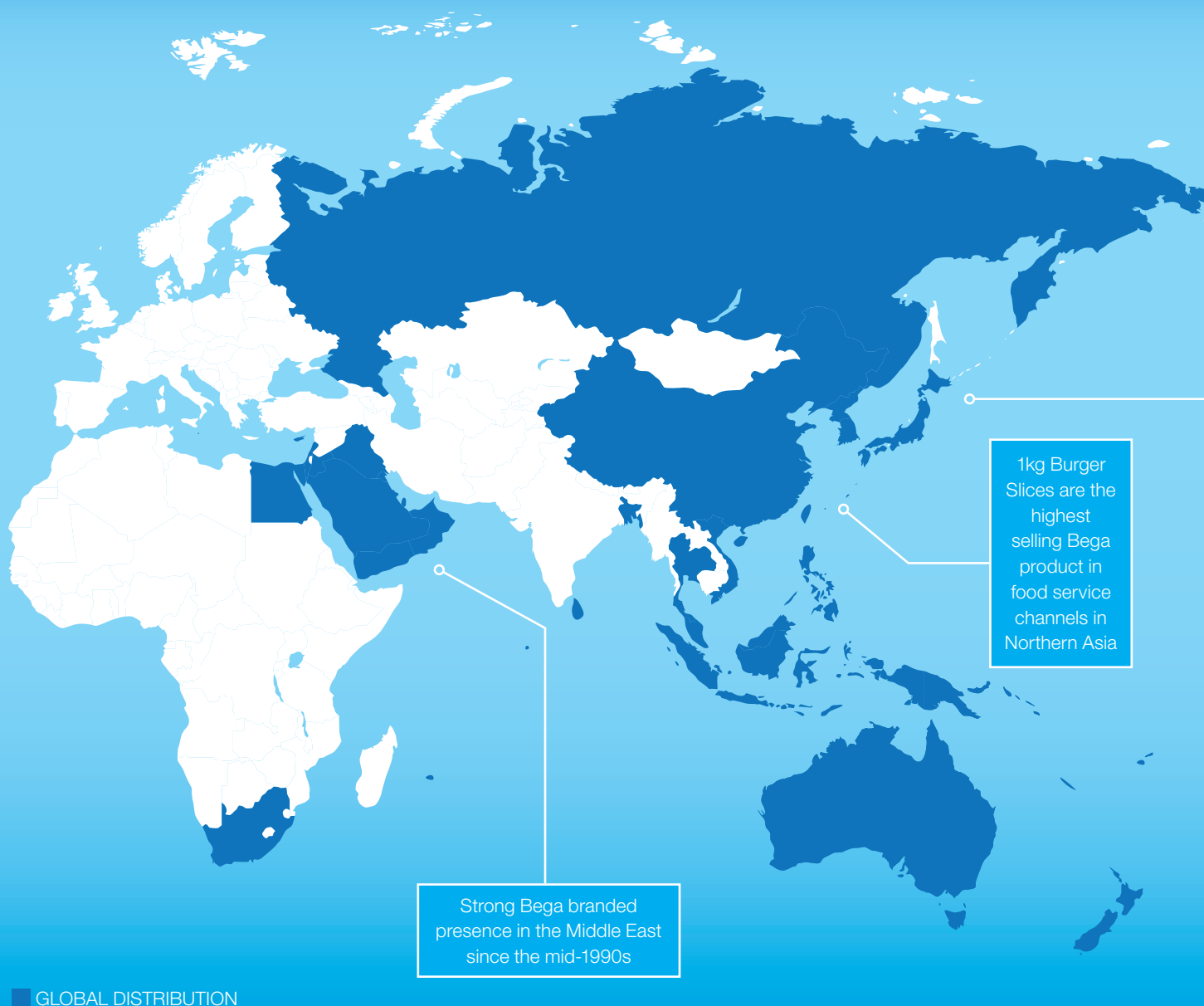
- Paediatric formula, growing-up milk powders and adult dairy nutritionals
- Milk biologics including lactoferrin
- These products are sold into Australian and international markets.

BUSINESS OVERVIEW

Headquartered in the southern NSW town of Bega, the Group employs over 1,360 staff and operates five manufacturing sites located across NSW and Victoria. Bulk cheddar cheese, string cheese and whey powder are produced at Lagoon Street, in Bega while bulk cheddar and mozzarella cheeses are produced at Coburg, Victoria. Milk powders, cream cheese and nutritionals are produced at Tatura in Victoria. The large scale cut, pack and processing facilities at Ridge St in Bega and Strathmerton in Victoria are dedicated to the conversion of bulk cheese products into FMCG retail packs.

The focus on value added dairy products, building complementary and synergistic business areas and long term customer and supply relationships, give the Bega Cheese Group a unique market position and a robust foundation for future growth.

Global distribution of products



Production Analysis

TONNES	FY2012	FY2011	Variance %
CORE	94,797	75,243	26
NUTRITIONAL	18,223	16,588	10
FMCG	90,745	94,392	(4)
TOTAL PRODUCTION TONNES BY PRODUCT GROUP	203,765	186,223	9



Domestic/Export sales split

\$'000	FY2012	FY2011	Variance %
TOTAL SALES TO AUSTRALIAN CUSTOMERS	636,494	633,975	0
TOTAL EXPORT SALES	290,258	297,715	(3)
TOTAL SALES	926,752	931,690	(1)

Executive Chairman's Review



A historical turning point for Bega Cheese

Bega Cheese's endeavour to create a high quality, significant Australian dairy company with strong shareholder, supplier and community connection took a major step forward in 2012.

The August 2011 listing of Bega Cheese shares on the Australian Securities Exchange ("ASX") represented a significant milestone in the history of the company. It was followed quickly by the full merger of Bega Cheese and Tatura Milk in December 2011.

The listing, merger and implementation of a staff share scheme increased the Company's capital base by over 28 million shares and we welcomed 3,471 new shareholders, including 1,310 staff. The Board was also expanded and strengthened through the appointments of Rick Cross and Jeff Odgers from the Tatura region and Peter Margin and Joy Linton, two independent non-farmer directors. Tom D'Arcy retired after 14 years and I would like to acknowledge his outstanding service and significant contribution as a supplier director over this time.

I would like to acknowledge the strong working relationship and shared vision that CEO Aidan Coleman and I have for the business and thank him for his significant contribution. I also acknowledge the 1,360 Bega Cheese and Tatura Milk staff who have worked tirelessly to ensure the business remained on course through a period of change, while also responding to a number of operational challenges including a fire at the Coburg factory, flooding at the Lagoon Street site and the integration of the Strathmerton and Tatura businesses into the Bega Cheese Group.

While corporate changes have been occurring at Bega Cheese Group it has been important to ensure the business continues to perform while meeting the expectations of its customers and to manage changing market circumstances.

Aidan will say more in his review of operations, but it is pleasing to be able to report that revenues for the business have remained stable and earnings have grown despite volatile domestic and international markets. Revenues of \$927 million and EBITDA growth of 9% to \$57 million demonstrate the strength and balance of the business. It is also evidence of management's ability to stay focussed in what was a very busy last 12 months.



The improving financial outcomes reflect the operational strength of Bega Cheese. The Australian and international business combined with long term supply contracts and a product range which includes cheddar, mozzarella, processed and cream cheese, infant formula, milk powders and dairy nutritional products ensures the business is able to respond well to market changes. A wide product range, value added capacities and diverse customer base has mitigated Bega's risk and enhanced planning certainty.

The long term relationships with customers such as Coles, Fonterra, Ingredia, Kraft, Lacto Japan, Mead Johnson Nutritionals and Megmilk Snow Brand are the cornerstone of a strong business that can plan and build with more certainty than our competitors. An important recent development was the new arrangements between Coles and Bega Cheese for the supply of Coles branded cheese products. The five year arrangement for the manufacturing, packaging and supply of Coles brand cheese products reflects Coles' desire to support Australian agricultural producers and processors.

Bega Cheese's strong customer base and reliability of demand has seen the business acquire milk from new suppliers and comfortably manage a significant increase in production from our long term supply base. A 23% increase in milk supply demonstrates our farmer's ability to respond to improved farm circumstances and stable milk pricing. The continuation of better seasonal conditions and the knowledge that water storages were near capacity saw strong increases in milk production particularly in Northern Victoria. The increased

milk intake saw total core manufacture grow to 94,797 tonnes which when combined with cheese packaging and nutritionals manufacture, total production exceeded 200,000 tonnes for the first time in the Group's history.

In this historic year I would like to acknowledge the contribution and goodwill of the many people responsible for the business' achievements. The stakeholders of Bega Cheese from the shareholders, staff, suppliers and customers, through to the communities in which we operate our factories have been incredibly supportive. However, they and I are the beneficiaries and custodians of a great business built by our forbears and our role is to grow that business in a responsible and profitable way. The history, reputation and financial strength mean that Bega Cheese is well positioned for solid financial returns and to be able to respond to new opportunities and participate in further rationalisation in the Australian dairy industry.

The new financial year brings challenge, especially for our supplier shareholders who have to deal with lower farm-gate prices arising from international markets. We will continue to work with our suppliers to ensure that Bega Cheese is the preferred home for their milk at the same time as delivering a return for our shareholders.

Barry Irvin
Executive Chairman
24 August 2012

Chief Executive Officer's review of operations and activities



While the origins of Bega Cheese Limited date back to 1899, the 2012 financial year has arguably been the most dynamic and change-focussed period in its long and proud history.

FY2012 commenced with activities associated with the listing of the Company's shares on the ASX in August 2011, which was followed by the full merger with Tatura Milk completed in December 2011. The Group has now commenced an organisational change program to bring both entities together and put in place a leadership structure to further develop the business and enhance future performance.

EARNINGS

While sales revenue was stable in FY2012, the Group generated \$57 million EBITDA for the year. This record level was a 9% increase on the prior year and was driven by a sales mix movement towards our key focus platforms. The Group continues to focus on its strategy of diversifying milk solids away from conventional dairy commodities in favour of more technically advanced products that are closely aligned to specific customer needs. This is exemplified by the Group's growth in infant, growing-up nutritionals and the range of cheese products for the Asian food service sector. Over the past year we have also experienced significant growth for lactoferrin products that targets the growing Asian demand for lactoferrin in infant and adult nutritional products.

The consolidated profit before tax was \$27 million. This result represented a 23% increase over the prior year and shows strong growth given the Group incurred several one-off charges (totalling \$3 million before tax) related to its listing on the ASX and the subsequent full merger of Tatura Milk.

Whilst consolidated profit before tax was up on the prior year by 23%, the consolidated profit after tax of \$20 million was down 6%. This decrease in after tax profit resulted from an increase in income tax expense of \$6 million, which was driven by a change in tax status of Tatura Milk on completion of the merger with Bega Cheese. Whilst the increase in income tax expense in FY2012 was substantive, the overall income tax to be paid in FY2012 will be less than the income tax expense due to the benefit of carried forward tax losses.



OPERATIONS

Bega Cheese Group continued to operate five production facilities over the year. The cheddar cheese and natural snacks operation at Lagoon Street, Bega was at full production for most of the year due to the requirement for increased cheddar to service our growing domestic and international customer base. Lagoon Street achieved record production volumes of cheddar and of demineralised whey powders in FY2012.

The cheddar facility at Coburg, Melbourne, also achieved record production as the Group built up inventory of maturing cheddar cheese to meet the requirements of the Coles branded contract, under which Bega Cheese commenced delivery to stores in February 2012. Unfortunately production was impacted by a fire in an electrical switchboard in March. However diversification of the Group's manufacturing capability over recent years has created a sound dairy manufacturing network and the business was well placed to mitigate the consequences of the Coburg fire by implementing risk management procedures which redirected milk to other facilities during the temporary shutdown. Whilst some one-off costs of the fire were still incurred, those costs were well contained.

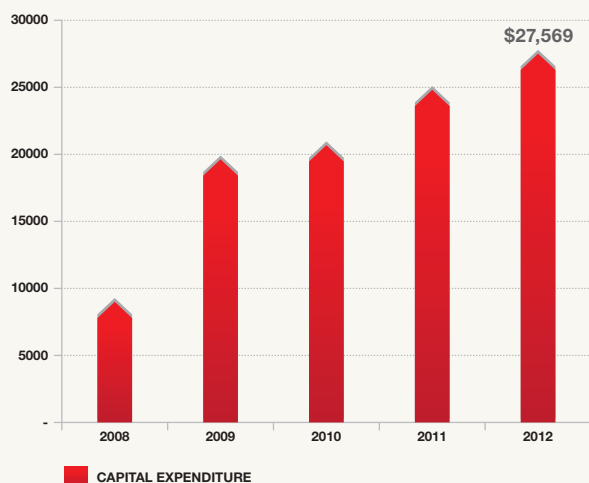
The cheese cut, pack and process operation at Ridge Street, Bega, experienced variable performance throughout the year as a result of a transition of film packaging to alternative suppliers. However, this transition is now largely complete and the facility is returning to its productivity levels of previous years.

The cheese cut, pack and process operation at Strathmerton in northern Victoria met expectations in the year. During FY2012 a significant capital program to establish natural cheese cutting and packaging capacity was completed at Strathmerton, which contributed to increased volume through the Strathmerton facility. We expect utilisation levels at both Ridge Street and Strathmerton to increase over the coming year, driven by strong demand and an increased focus on productivity objectives implemented in FY2012.

The Tatura operation in northern Victoria also had a strong production year as it effectively utilised its available capacity for cream cheese and nutritionals, reflecting continued growth in Asian market demand for these products. A capital program to substantially increase cream cheese production commenced during the year and is expected to be completed by late FY2013. Tatura benefited significantly from its Right First Time productivity improvement program which is making a strong contribution to site performance. The learnings from this program will be rolled out to other sites over the coming year.

Chief Executive Officer's review of operations and activities (cont.)

CAPITAL EXPENDITURE (\$'000)



NET ASSETS (\$'000)



CASH FLOWS

Managing cash flows continues to be a key focus for the Group. The Group generated a net cash outflow from operating activities of \$10 million, compared to a net cash inflow of \$75 million in the prior year. This was primarily due to an increase of \$58 million in inventory to service the needs of customers and a changing customer mix. In particular a one-off up front investment in inventory was required to meet the new arrangements between Bega Cheese and Coles. Bega Cheese commenced manufacture of cheese for Coles in the first half of FY2012 to ensure its finished products had the correct quality, age profile and characteristics by the time of sale to Coles in the second half of the year.

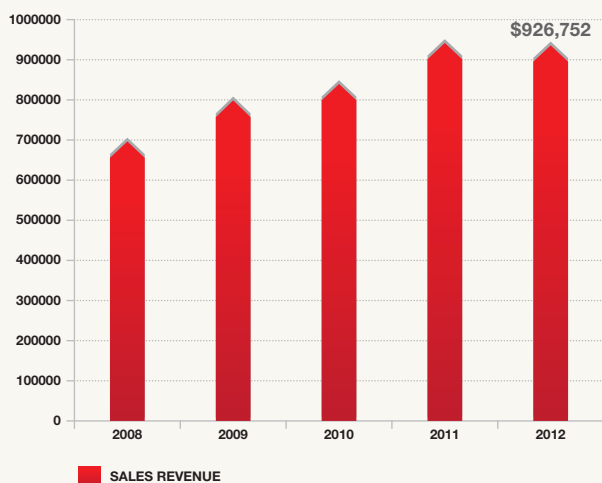
Other key elements of the cash flows in FY2012 include:

- The Group raised \$35 million, before equity raising costs, from the issue of share capital on listing on the ASX
- Capital spend on property plant and equipment of \$28 million
- Additional purchase of shares in WCB of \$4 million.

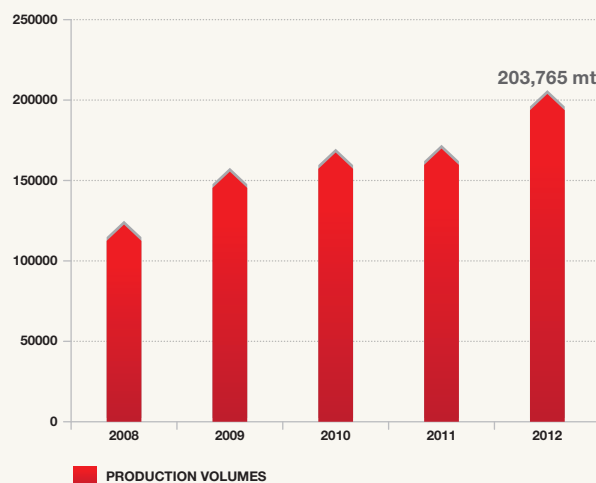
MARKETS AND SALES

Bega Cheese Group continues to focus on its key platforms of cut, pack and processing consumer cheese, infant and growing-up dairy nutritional products and cream cheese. Total consolidated sales revenue of \$927 million represented a drop of \$5 million on the previous year. Key impacts on sales revenue included repatriating USD denominated export sales to Australian dollars over a period of an exceptionally strong Australian currency, and FMCG production volumes being impacted by a short term changeover between major customers ending domestic cheese packing contracts and the commencement of new retailer own label contracts. The Group experienced softening international dairy commodity prices in the latter half of the financial year that also detracted from sales growth. This aspect was not unique to the Group and was experienced by many companies participating in the international trade of dairy products. Despite these impacts, we are satisfied with the level of overall revenue and our ability to withstand variability in dairy commodity prices is testament to the increasingly diversified sales base across the Group.

SALES REVENUE (\$'000)



PRODUCTION TONNES (mt)



PRODUCTION VOLUMES

Our combined operations generated a total production output of 203,765 tonnes during the year. This production is up 17,542 tonnes, or 9%, on the prior year and is the first time that the Group has surpassed the 200,000 tonne mark. Part of this increase in production contributed to an increased inventory at year end, as cheddar cheese stocks were built up for the Coles contract.

INVESTMENTS

The Company has maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA) in Canberra, a regional milk processor. CCFA continues to trade strongly although it has experienced some impact on performance due to the competitiveness of retail milk pricing. The Company also increased its shareholding in Warrnambool Cheese & Butter Factory Company Holdings Limited (WCB) from 15.0% to 16.6% during the year, with the performance of WCB being on the public record.

MILK SUPPLY

The Group collected a record volume of milk from its supplier base in New South Wales, Victoria and South Australia, taking in 638 million litres of milk. This was a 23%, or 118 million litre increase over the prior year. Milk intake was predominantly from some 500 direct suppliers, however the Group also collected seasonal milk on contract when economically viable to do so. The majority of the growth was from an extension of our direct supplier base in Southern Victoria, complemented by a welcome recovery of milk production in Northern Victoria.

DIVERSIFIED CUSTOMER BASE

Our focus on a select number of diversified dairy platforms continues to be the growth engine for the Company. The Group has a good balance of domestic and international customers across long term supply contracts and relationships. These include globally recognised organisations such as Fonterra, Ingredia, Kraft, Lacto Japan, Mead Johnson Nutritionals, Megmilk Snow Brand and now, Coles. In addition, we have maintained an extensive customer network within Australia, Asia and the Middle East with significant growth coming from China, where we are now a well respected supplier of infant and growing-up nutritional milk products.

Chief Executive Officer's review of operations and activities (cont.)



ENVIRONMENT

A Manager – Environment and Sustainability has been appointed to develop our environmental strategic plan and to manage corporate and site programs to deliver environmental performance across the Group. The Bega Environmental Management System (BEMS) has been extended from the land rehabilitation activities of farmers in the Bega Valley to now include farmers supplying the Company in all regions in Victoria. The program has been strongly embraced in Victoria and we expect to replicate similar positive environmental outcomes to those achieved in the Bega Valley.

The Company has assessed the implications of the Carbon Tax, which is expected to have an impact of approximately \$3 million dollars annually relating to electricity and natural gas consumption. While a portion of this impact can be passed on within our contracts it is likely that this tax will also impact back down the dairy value chain to farm-gate milk price.

SAFETY

The safety of our employees is our highest operating priority. The FY2012 number of lost time injuries increased marginally from the prior year. However there was a reduction in the severity of injuries and this was reflected in the continued downwards trend in the company's Workers Compensation premiums.

The Board and the Group Leadership Team are committed to continuous improvement in safety. Management leadership in the identification and control of hazards will remain a key strategic focus. Zero harm is a core value of the Group, which will be supported by the roll out of a Group-wide Safety Plan in the coming year.

OUR TEAM

FY2012 has seen the most significant change in the 113 year history of Bega Cheese Limited and the results would not have been possible without the efforts of the 1,300 plus staff employed across New South Wales and Victoria. During the year we listed on the ASX, merged with Tatura Milk, scaled up cheese production to record levels for the supply contract with Coles, experienced two floods and a fire and reorganised the business structure. At the same time, we have continued to run a highly effective business model that has generated strong results. It has been a frenetic year for many people within the organisation and I would like to acknowledge the efforts of the Executive Team and our colleagues throughout the Company. These efforts are appreciated in bringing together the new Bega Cheese Group organisation.

I would also like to acknowledge the strong support and vision provided by our Executive Chairman, Barry Irvin, and the Board of Directors, who have been pivotal in overseeing the significant changes and strong performance generated in FY2012.



STRATEGY

The Board continues to drive the future success of the Group and has set a clear strategy and direction moving forward. The Group will continue to focus on our customers, delivering superior returns to shareholders, maintaining excellent supplier relationships, optimizing milk solids away from basic commodities, safeguarding and energizing the workforce and continuing long term support and engagement with the communities in which the Group operates.

The Group will maximize the strengths of the business and leverage off its competitive advantages in nutritional food products, FMCG cheese packaging and its core dairy manufacturing network. It will see further development of the organisational structure and skills within the business and will continue to be the dairy company of choice for customers, staff, suppliers and investors moving forward.

OUTLOOK

Notwithstanding uncertainty associated with global economic conditions, subdued global dairy commodity markets and relative strength of the Australian dollar, clear direction and a progressive strategic plan means the outlook for the Group remains solid. The Company has extended its relationships with existing and new key customers, has diversified the business, product, milk supply and geographic reach and strengthened the organizational structure to better insulate it from these external forces. The outlook for the Group is therefore positive and I am confident that the trend of strategic business development and profit growth will continue.

Aidan Coleman
Chief Executive Officer
24 August 2012

Directors' Report

Your Directors present the annual financial report of the Bega Cheese Group for the year ended 30 June 2012.



Left to right: Joy Linton, Richard Platts, Barry Irvin, Peter Margin, Rick Cross, Richard Parbery, Jeff Odgers and Max Roberts.

BARRY IRVIN AM

Executive Chairman, Director
since September, 1989.

EXPERIENCE AND EXPERTISE

Barry Irvin is recognised globally for his extensive knowledge of the Australian dairy industry. In 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, 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 Human Resources Committee.

MAX ROBERTS

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 Human Resources Committee.

RICHARD PARBERY FCPA

Director since September, 1988.

EXPERIENCE AND EXPERTISE

Richard Parbery is the Managing Partner of a successful regional accounting practice, is a Fellow of the Australian Society of Certified 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

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Member of Audit and Risk Committee.

RICHARD PLATTS ADV DIP AGR; GAICD

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 Human Resources Committee.



The first Board of Directors of Bega Cheese



Back row left to right: Benjamin Gowing, JJ Ritchie, J.Underhill (Secretary);
Front row left to right: Thomas Darcy, T.J Kelly (Chairman), JT Rogers.

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

Non-executive director of two other public companies: Nufarm Limited (director since 2011), PMP Limited (director since 2012).

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Goodman Fielder Ltd.

SPECIAL RESPONSIBILITIES

Chair of Nomination and Human Resources Committee and member of Audit and Risk Committee.

JOY LINTON **BCOMM, GRAD DIP AFI, GAICD**

Independent Director since
24 October 2011.

EXPERIENCE AND EXPERTISE

Joy Linton is currently Chief Financial Officer at Bupa Australia, one of Australia's leading healthcare companies. She has 20 years of experience in strategic and financial roles with companies such as Ford Motor Company, Pacific Dunlop Food Group and National Foods Limited. She held the role of CFO of National Foods from 2007 to 2010 and prior to that was General Manager Commercial for the Dairy Foods Group.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of Audit and Risk Committee.

RICK CROSS **BAGSCI (HONS), GAICD**

Director since 23 December 2011.

EXPERIENCE AND EXPERTISE

Rick Cross has represented dairy farmers at various levels within the United Dairyfarmers of Victoria and also sits on the Innovation Selection Committee for the Gardiner Foundation. Richard was a director of Tatura Milk from 2003-2011.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Nil.

JEFF ODGERS **BBUS (AG MGT)**

Director since 23 December 2011.

EXPERIENCE AND EXPERTISE

Jeff Odgers has been involved in dairy and water industry roles for the past 12 years, and actively managing farming businesses for over 25 years. Jeff is a former Chairman of Murray Dairy Inc.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Nil.

Directors' Report (cont.)

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 2012 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

The dividends paid to shareholders during the financial year were:

	2012 \$'000	2011 \$'000
Interim ordinary dividend for the year ended 30 June 2012 of 3 cents	4,522	–
Final ordinary dividend for the year ended 30 June 2011 of 1.25 cents	–	1,359

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of \$5,315,000 (3.5 cents per fully paid share) to be paid on 19 September 2012, which will be fully franked. The extent to which future dividends may be franked will be subject to the actual tax paid by company, which in turn will be subject to the Group's ongoing utilisation of carried forward tax losses available within the Group.

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 THE 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 Group since the last Annual Report.

INDEMNIFICATION AND INSURANCE PREMIUMS FOR OFFICERS

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

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

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Joy Linton was appointed to the Board on 24 October 2011.

At the 2011 Annual General Meeting on 21 November 2011 each of Richard Parbery, Peter Margin and Joy Linton retired and were re-elected as directors by shareholder vote.

Tom D'Arcy retired as a director on 23 December 2011 and did not offer himself for re-election.

Rick Cross and Jeff Odgers were appointed directors on 23 December 2011 in accordance with the Tatura Milk Industries Scheme of Arrangement.

In accordance with the Constitution, Barry Irvin, Rick Cross and Jeff Odgers retire as directors at the 2012 Annual General Meeting and, being eligible, offer themselves for re-election.

COMPANY SECRETARY

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of

Commerce in Accounting and is a Chartered Accountant with 27 years experience. He has also been a Graduate member of the Australian Institute of Company Directors since 2006. Brett Kelly completed the Certificate in Governance and Risk Management with Chartered Secretaries Australia in December 2011.

Colin Griffin CA was appointed to the position of Company Secretary in 1993. Colin Griffin holds a Bachelor of Arts in Accounting and is a Chartered Accountant with 29 years experience. Colin Griffin leads the finance team and is responsible for corporate development and mergers and acquisitions for Bega Cheese and Tatura Milk.

MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit and Risk Committee and Nomination & Human Resources Committee meetings held during the year ended 30 June 2012 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	32	32
Max Roberts	32	28
Richard Parbery	32	28
Tom D'Arcy	20	19
Richard Platts	32	27
Peter Margin	29	28
Joy Linton	19	18
Rick Cross	12	9
Jeff Odgers	12	12

Each director gave apologies in advance of the meetings they were unable to attend.

	Meetings of the Audit & Risk Committee	
	Held and Eligible	Attended
Joy Linton	5	5
Richard Parbery	7	7
Tom D'Arcy	2	2
Peter Margin	7	7

Richard Parbery stepped down from the office of Chair at the meeting held 27 September 2011, but continued his membership on the Committee.

Joy Linton joined and was appointed Chair of the Audit and Risk Committee at the next meeting held on 21 November 2011.

Tom D'Arcy retired from the Audit and Risk Committee at the meeting held 27 September 2011.

	Meetings of the Nomination & Human Resources Committee	
	Held and Eligible	Attended
Peter Margin	5	5
Barry Irvin	5	5
Max Roberts	5	5
Richard Platts	5	4

Richard Platts apologised in advance for the meeting he was unable to attend. Peter Margin was Chair of the Nomination & Human Resources Committee for the year.

ENVIRONMENTAL REGULATIONS AND SUSTAINABILITY

Bega Cheese Group strives to improve business performance and sustainability by recognising and applying environmental, social and economic consideration in its decision making and balancing these with the needs of shareholders and community expectations. Bega Cheese Group is developing a strategic plan to continue to deliver environmental compliance, manage the impact of the carbon tax and ensure ongoing economic development is sustainable.

The merger of Tatura Milk with Bega Cheese has seen us appoint a Manager – Environment and Sustainability to develop our environmental strategic plan and to manage corporate and site programs to deliver environmental performance for the Group. In June 2012 the company received confirmation of a grant of \$283,000 from the Federal government's Green Energy Fund that supports the utilisation of more environmentally beneficial energy systems. In Bega's case, this grant relates to work the company is undertaking in refrigeration and low energy lighting systems.

The Bega Cheese on-farm Environmental Management System (BEMS) has been operating in the Bega Region since 2005. In partnership with the Southern Rivers Catchment Management Authority we have engaged over 90% of our Bega region suppliers in on-farm environmental projects which will result in significant landscape change. Grants from State and Federal funding programs have delivered over \$2.5 million in on-ground works funds which has been matched with over \$6 million dollars in landholder contributions. Works have focussed on minimising sediment and nutrients entering waterways, improving biodiversity and reducing greenhouse gases. To date 42 effluent reuse upgrades, 20 stream crossing upgrades, 28 laneway upgrades and 37 erosion site projects have been approved and are being implemented. In addition, 127km of fencing and 145ha of revegetation has been approved and is being implemented to protect and enhance 98km of river frontage and 184ha of wetlands and 23ha of terrestrial habitat

Directors' Report (cont.)

have been or are being protected. Soil tests and nutrient maps have been produced for 84 farms (15,000ha) helping farmers to better manage nutrient levels on farm and reduce off-site impacts. Over 50 dairy shed energy assessments have been implemented to reduce energy use and greenhouse gas emissions. So far 19 farms have implemented energy efficiency projects as part of the NSW Energy Efficiency for Small Business Program. These projects will save \$38,500 in energy costs per year and 160 tonnes of CO₂ emissions.

As a result of the BEMS programme, in November 2011 Bega Cheese was announced the Winner of the Peabody Energy, Environment and Landcare Award, at the NSW Regional Achievement and Community Awards. We are very proud of this achievement and all our suppliers who have participated in the program.

The success of the BEMS program in the Bega region has inspired the extension of the program to include farmers in the Tatura region of northern Victoria. With the assistance of a Caring for Our Country funding grant the BEMS Sustainability Assessment program is being implemented on a voluntary basis across all our supplier regions. The BEMS Sustainability Assessment Tool and database will help us to deliver well targeted sustainability extension programs in the future and provides us with a means of monitoring on-farm management practices and improvements over time. We are very pleased with the uptake of our BEMS program to date which reflects the good relationship our Farm Services Team has with our suppliers and the positive and the progressive nature of our suppliers.

Environmental Performance

Bega Cheese Group is subject to federal and state environmental regulations for all sites. Four of the sites are licenced under state environment regulations. The licences stipulate performance standards for all emissions (noise, air, odour, wastewater etc.) from the sites as well as the frequency and method of assessment of the emissions. Tatura Milk and Coburg sites also operate under Trade Waste Agreements with the local municipal body for disposal of wastewater.

During FY2012 there were reportable incidences at our sites resulting in environmental non-compliances. In each instance the non-compliance event was carefully investigated and an appropriate action plan agreed with the regulatory team or municipal body to reduce future risks. The incidences have been resolved or have a plan in place for resolution. In all instances the circumstances, environmental impact and management team response to the incident has resulted in an assessment by the regulator that punitive measures were not warranted.

Environmental Regulations

The Group is subject to numerous environmental regulations with reporting requirements under the *Energy Efficiency Opportunities Act 2006 (Cwth)*, *National Greenhouse and Energy Reporting Act*

2007 (Cwth), the *Environment & Resource Efficiency Plans (EREP) Regulations (Victoria)* under the *Environment Protection Act 2001 (VIC)*, the *Protection of the Environment Act 1997 (NSW)* as well as the *Clean Energy Act 2011 (Cwth)*.

Bega Cheese facilities in Tatura, Strathmerton and Bega all operate under licence from the relevant state Environment Protection Agency (EPA). Changes to the EPA regulations under the *Protection of the Environment Operation Act 1997 (NSW)* require the Bega sites to publish environment monitoring data on the company website. The Group maintains an open and communicative relationship with various local representatives from the regulators at each site.

The *Environment Protection Act 2001* requires the Tatura Milk and Strathmerton sites participate in the Environment and Resource Efficiency Plan (EREP) program. The sites have submitted the appropriate actions plans and are working on delivering the projects within the nominated timelines. The sites are compliant with the program requirements.

The *Energy Efficiency Opportunities Act 2006* requires the Group to report on energy saving projects identified in the assessment phase of the program. The Group's original action plan is in the final year of the 5 year cycle and the new action plan required for FY13 will be completed by September 2012. Details of the projects are posted on the Group's website.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to measure and report greenhouse gas emissions. The Group has complied with report submission requirements for 2010 and 2011. The Group has engaged consultants to develop data capture and reporting systems which has improved the reporting process for FY2012 and will ensure continued compliance.

Under the *Clean Energy Regulations 2011 (Cwth)* the Tatura Milk site exceeded the threshold for carbon emission from Natural Gas consumption and therefore has become a liable entity and must directly manage carbon tax related to natural gas use. The Group has taken the necessary action to understand the direct implication of the carbon tax from energy consumption. The full impact of the carbon tax across the business is under assessment as flow-through costs to and from our business partners become clearer.

REMUNERATION REPORT

Introduction

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, CEO and other key management personnel (KMP) of the Group, being the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2012.

This report also addresses the remuneration of the non-executive Directors of the Group, being those Directors who do not hold executive responsibilities. The remuneration of non-executive Directors is determined by reference to the Constitution of the Group in place throughout the FY2012 year.

Remuneration Governance

In August 2011 the Board established the Nomination and Remuneration Committee, under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating Directors and KMP. The key responsibilities of this Committee, which commenced on 29 August 2011, were to make recommendations to the Board in relation to remuneration principles and procedures for employees and Directors of the Group and provide guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic development.

The Board changed the title of the Nomination and Remuneration Committee to "Nominations and Human Resources Committee" in March 2012 to reflect the Committee's broader Human Resources mandate rather than just being restricted to matters of Remuneration.

The Nominations and Human Resources Committee now has two broad roles.

The first is to assess and make recommendations to the Bega Cheese Group Board on any changes to the composition of the Board with a view to ensuring that it is able to operate effectively and efficiently and adequately discharge its responsibilities and duties.

The other role is to advise and assist the Board to ensure that Bega Cheese Group:

- a. has coherent human resources policies and practices which enables the Group to attract and retain executives and directors who will create value for shareholders and that support Bega Cheese Group's wider objectives and strategies, and that they are adhered to;
- b. fairly and responsibly remunerates directors and executives, having regard to the performance of Bega Cheese Group, the performance of the executives and the general remuneration environment; and
- c. has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet Bega Cheese Group's needs.

Further details of the Committee are given in the Corporate Governance Statement.

In June 2012 the Nominations and Human Resources Committee received remuneration advice from Godfrey Remuneration Pty Ltd relating to the structure and quantum of fees for the Executive

Chairman and Non-executive Directors. The Board confirms that the making of the remuneration recommendation was free from undue influence by any of the KMP to whom the recommendation relates. Godfrey Remuneration Pty Ltd were given a brief by the Chairman of the Nominations and Human Resources Committee to arrange an independent market review against practices of peer companies. Peer companies was independently selected by Godfrey Remuneration Pty Ltd. The remuneration recommendations provided by Godfrey Remuneration Pty Ltd were noted and will be further considered in assessing Directors' entitlements in FY2013. The consideration payable for the remuneration advice was \$11,220.

Executive Remuneration Guidelines

The Board, through the deliberations and recommendations of the Nominations and Human Resources Committee, is responsible for the remuneration strategy, principles and procedures for employees of the Group.

Up until 22 December 2012 the Tatura Milk Board and Executive General Manager were responsible for the remuneration strategy, principles and procedures for employees of Tatura Milk including its Executive team.

Bega Cheese Limited acquired the remaining 30% shareholding in Tatura Milk on 23 December 2011, at which time, the Nominations and Human Resources Committee also assumed stewardship for Tatura Milk including all matters within its Charter.

In setting the remuneration of KMP, inclusive of base remuneration, Short Term Incentive (STI) and the Long Term incentive (LTI) at-risk payment for the Chief Executive Officer, the Board takes recommendations from the Nominations and Human Resources Committee. In formulating its recommendations, the Committee takes into account a range of factors including, company financial performance, and remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a key factor in determining the total remuneration for each KMP.

The remuneration recommendations of the Nominations and Human Resources Committee take primary account of the financial performance of the organisation, especially the attainment of budgeted profit. The achievement of budgeted profit is clearly a core factor in the ability of the Bega Cheese Group to distribute anticipated dividends and capital growth to shareholders. Further, KMP have a significant amount of their STI at risk incentive directly related to a stretch profit target beyond budgeted profit. This stretch profit target provides the opportunity for KMP to derive additional at-risk payments where the achievement of performance criteria has a direct bearing on the earnings of the organisation and its potential to reward shareholders.

Directors' Report (cont.)

In the case of the Chief Executive Officer's LTI, the granting of any performance rights over ordinary shares is linked in equal proportions to Total Shareholder Return (TSR) and Earnings Per Share (EPS) over a three year period.

The key remuneration guidelines which apply to the Group, including Tatura Milk are summarised below.

Directors' Remuneration

Directors' remuneration is set by the Board within the maximum aggregate amount of \$900,000 per annum approved by shareholders.

In order to maintain independence and impartiality, non-executive directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Company performance. In setting fees, the Board takes into consideration the Company's existing remuneration policies, advice from the General Manager Human Resources, survey data sourced from external specialists, fees paid by comparable companies and the level of remuneration required to attract and retain directors of the appropriate calibre.

For the period FY2012, Non-executive Directors receive a fee of \$70,000 per annum inclusive of superannuation in relation to their service as a director of the Board and the Executive Chairman, taking into account the greater commitment required, receives a fee of \$175,000 per annum inclusive of superannuation.

The Company pays Chair of Committees fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles.

Chairs of the Board's Audit and Risk Committee, and Nominations and Human Resources Committee receive committee chair fees of \$12,000 per annum inclusive of superannuation. The Directors who sat on these committees did not receive committee fees.

Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Company.

Up until the completion of the merger of Tatura Milk with Bega Cheese on 23 December 2011 Non-executive Directors of Tatura Milk were paid a base directors fee of \$30,000 plus superannuation of 9% plus allowance for representing that entity beyond the agreed duties of Directors.

Remuneration of the Executive Chairman of Bega Cheese

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

Consistent with the prior year the Board has agreed that the remuneration of the Executive Chairman be split as to his responsibilities as Chairman of the Board and as to his responsibilities as the most senior executive of the Group.

The Board obtained independent advice in determining the remuneration of the Executive Chairman, which recognised the broad executive responsibilities of the Executive Chairman whilst Bega Cheese was operating without a separate CEO.

In 2011/2012 the Board reviewed the remuneration of the Executive Chairman, in conjunction with input from the Nominations and Human Resources Committee. This review focussed on the changes to the Executive Chairman's executive duties as a result of the appointment of Aidan Coleman as CEO in May 2011 and the listing of Bega Cheese on 19 August 2011.

As a result of the review, the remuneration of the Executive Chairman for executive duties was set in accordance with the following principles, applying from 19 August 2011:

1. A base salary of \$325,000, inclusive of superannuation, which is not subject to specific performance or deliverables criteria but is adjusted down for any fees the Executive Chairman may earn from his role as Director of related organisations and dairy industry organisations.
2. Remuneration earned by the Executive Chairman during the year ended 30 June 2012 from his responsibilities as Chairman of Tatura Milk, and as a Director of each of Warrnambool Cheese and Butter Factory Company Holdings Limited and Geoffrey Gardiner Dairy Foundation Ltd were specifically deducted from his base salary in accordance with principle 1 above during the year.
3. An at-risk short term incentive to a maximum of \$100,000 which was subject to achievement of agreed outcomes.

Non-executive Duties at Bega Cheese

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 2011 and 2012 was as follows:

Allowance and period	2012	2011
Chairman's allowance Bega Cheese ⁽¹⁾	145,702	52,160
Director's allowance Bega Cheese ⁽¹⁾	3,420	24,963
Superannuation ⁽²⁾	13,421	6,941
Total non-executive related Director's fees and superannuation	162,543	84,064

⁽¹⁾ Directors fees include a Director's Allowance, plus an additional allowance for the Chairman. The shareholders of the Group approved the constitution at a special general meeting held on 21 April 2011 which provided for total Directors' fees of up to \$900,000 to be paid in each year. The Directors' fees paid to the Chairman for his non-executive responsibilities were increased from \$84,064pa to \$175,000pa, inclusive of superannuation, with effect from 19 August 2011.

⁽²⁾ Director's allowance included in Chairman's allowance for the financial year ended 30 June 2012.

Non-executive Duties as Chairman of Tatura Milk

In addition to his remuneration as Executive Chairman of the Group, Barry Irvin was also paid a Director's fee and Chairman's allowance by Tatura Milk, up until 22 December 2012, for his role as Non-executive Chairman of that entity. The total remuneration of all the Directors of Tatura Milk was specified in its Constitution to not exceed \$225,000 per annum. In accordance with the agreement of the Directors of Tatura Milk, Barry Irvin was paid \$20,000 (plus superannuation at 9%) by Tatura Milk for his services as Non-executive Chairman of that entity up until 22 December 2012. The fee was deducted from the base salary of the Executive Chairman.

Remuneration of the CEO

The remuneration of the CEO of the Group is determined by the Board having regard to independent advice. The following principles apply to the remuneration of the CEO:

- An annual remuneration of \$700,000 comprising base salary and superannuation;
- An at-risk short term incentive amount subject to the achievement of agreed outcomes of up to \$300,000 per annum; and
- An at-risk long term incentive subject to the achievement of agreed outcomes of up to 714,286 performance rights. If the performance rights vest, they are converted on a one to one basis.

Other key terms of the CEO's service agreement are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. 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 Group.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

Remuneration of Other Key Management Personnel

The total remuneration and remuneration structure of the KMP of Bega Cheese and Tatura Milk is reviewed on an annual basis and any changes are recommended by the Nominations and Human Resources Committee to the Board. Board approval is required to set the remuneration of each KMP and the Board may ask for any additional information it deems necessary in order to form a view as to the reasonableness of the recommendations it receives.

Paul van Heerwaarden, Grattan Smith, Garth Buttimore and David McKinnon each have a specific individual service agreement the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Three 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	Three months' notice or lesser period as agreed by the Group.
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

Colin Griffin and Maurice Van Ryn have specific individual service agreements, the key terms of which are as follows:

Term	Colin Griffin: Ongoing, subject to termination rights set out in the service agreement. Maurice Van Ryn: To 31 December 2012, subject to termination rights set out in the service agreement.
Termination by Group	One year's notice or payment in lieu of such minimum notice. 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 Group. Forthwith in the event of the Group going into liquidation or making any composition or arrangement with its creditors or breach of the agreement by the Group without remedy.
Payments on Termination by Group	If Division 2 of Part 2D.2 of the Corporations Act 2001 does not apply, the full amount of the executive's salary package. ⁽¹⁾ If Division 2 of Part 2D.2 of the Corporations Act 2001 does apply, the lesser of: - the full amount of the executive's salary package or - the maximum amount permitted by Section 200G of the Corporations Act 2001 without approval of shareholders.

⁽¹⁾ Division 2 of Part 2D.2 of the Corporations Act limits retirement benefits to certain categories of Directors and executives.

Inclusion of At-risk Component in Total Remuneration Package

KMP 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 Board on an annual basis to ensure they closely align with the specific

Directors' Report (cont.)

corporate, leadership and financial objectives of each company in the Group. The Strategic Plan, Business and Operating Plans and Annual Budgets are the key reference points used in setting the predetermined criteria. The Board approves the predetermined criteria each year for each KMP.

At the end of the financial year the CEO calls for reports from the human resources and finance departments as to actual performance against the predetermined criteria. The CEO also considers 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 KMP. A report and recommendation is then submitted to the Board via the Nominations and Human Resources Committee. Board approval is required before the at-risk component of the remuneration for each of the KMP is paid.

Employee Loyalty Offer

In August 2011 and May 2012 Bega Cheese issued ordinary shares to eligible employees of both Bega Cheese and Tatura Milk respectively. The basis for this distribution was detailed in the "Employee Loyalty Offer" section of the Prospectus dated 18 July 2011, which was designed to reward employees who had assisted Bega Cheese and Tatura Milk to reach a position where Bega Cheese could list on the ASX and then finalise the merger with Tatura Milk. The share allocation was also intended to act as an incentive for employees to remain with and contribute positively to the business, especially those at senior levels.

In accordance with the "Bega Cheese Limited Tax Exempt Employee Share Plan Rules" and the "Bega Cheese Limited Incremental Plan Rules", eligible employees were offered with an invitation to accept a specified quantum of shares for nil consideration.

The amount of shares offered to each eligible employee was

Plan	Shares
Bega Cheese Limited Tax Exempt Plan - Bega Cheese staff	275,750
Bega Cheese Limited Incremental Plan - Bega Cheese staff	632,700
Bega Cheese Tax Exempt Plan - Tatura Milk staff	76,250
Bega Cheese Incremental Plan - Tatura Milk staff	210,986

The number and value of shares issued to KMP were as follows:

Number of shares	Incremental Plan Bega staff *	Incremental Plan Tatura staff	Other entitlements *	Total shares
Value on issue or at 30 June 2012	\$1.60	\$1.68	\$1.60	
Colin Griffin	100,000	-	1,760	101,760
Grattan Smith	25,000	-	440	25,440
Maurice Van Ryn	112,500	-	1,980	114,480
Paul van Heerwaarden	-	20,000	-	20,000

* Valued at share price at year end

determined by consistently applying a number of factors which included length of service, employment classification and the nature of the position held. The total shares offered under each of the respective Plans is set out in the table below.

The issue of shares under the Incremental Plan to KMPs is subject to the recipients remaining employed by Bega Cheese Limited for a period of twelve months from the date of listing. These shares were issued on 20 August 2012. Other entitlements are rights issued in respect of dividends due on shares held under the Incremental Plan.

Long Term Incentive Plan – Chief Executive Officer

The Chief Executive Officer participates in the Bega Cheese Limited Long Term Incentive Plan (Plan). During the year, PwC Australia provided advice in respect of the structuring and accounting for the Plan.

The number of Performance Rights issued under the Plan was determined by the Board having regard to the underlying base remuneration of the CEO before the benefit of the Performance Rights, the fair value of the rights issued being in the order of one year's base salary.

The Plan gives performance rights over ordinary shares in the Group (Performance Rights), on the terms and conditions as set out in the rules of the Plan (Plan Rules).

The purpose of the Plan is to:

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

Summary of Long Term Incentive Plan

Grant Date:	29 June 2012																				
Number of Performance Rights offered:	714,286																				
Exercise price:	Subject to the satisfaction of the Performance Hurdles and the Vesting Conditions (set out below), each Performance Right is converted into one fully paid ordinary share in the Group.																				
Vesting Conditions:	There is no exercise price payable in relation to the exercise of the Performance Rights.																				
Performance Hurdles:	Subject to the leaver provisions referred to below, no Performance Right granted will vest and be automatically exercised unless the CEO remains employed with the Group during the entire 3 year performance period. TSR Performance Rights 50% of the Performance Rights (357,143) granted will be subject to the achievement of the relative* total shareholder return (TSR)** targets (referred to as TSR Performance Rights). Those TSR targets are set out in the table below and apply over the entire 3 year period from July 2011. Table: vesting schedule for TSR Performance Rights <table> <tr> <th><i>Vesting percentage</i></th><th><i>TSR targets</i></th></tr> <tr> <td>Nil vesting</td><td>below the 51st percentile</td></tr> <tr> <td>50% vesting</td><td>at the 51st percentile</td></tr> <tr> <td>Pro-rated vesting between 50% and 100%</td><td>between the 51st and 75th percentile</td></tr> <tr> <td>100% vesting</td><td>at or above the 75th percentile</td></tr> </table> *The relative TSR peer group are companies in the S&P / ASX 300 index, excluding energy, metals and mining, real estate and other financial organisations as at 1 July 2011. **The "starting share price" and "closing share price" for TSR purposes is the volume weighted average price of the Group's shares as traded in the 30 day period from listing, and end, respectively, of the three year performance period. EPS Performance Rights 50% of the Performance Rights (357,143) granted will be subject to the achievement of the earnings per share (EPS) growth targets (referred to as EPS Performance Rights). Those EPS targets are set out in the table below and apply over the entire 3 year period from 1 July 2011. Table: vesting schedule for EPS Performance Rights <table> <tr> <th><i>Vesting percentage</i></th><th><i>EPS growth targets</i></th></tr> <tr> <td>Nil vesting</td><td>below 7.5% compound annual growth over the 3 year period</td></tr> <tr> <td>50% vesting</td><td>at 7.5% compound annual growth over the 3 year period</td></tr> <tr> <td>Pro-rated vesting between 50% and 100%</td><td>between 7.5% and 10% compound annual growth over the 3 year period</td></tr> <tr> <td>100% vesting</td><td>at 10% or above compound annual growth over the 3 year period</td></tr> </table>	<i>Vesting percentage</i>	<i>TSR targets</i>	Nil vesting	below the 51st percentile	50% vesting	at the 51st percentile	Pro-rated vesting between 50% and 100%	between the 51st and 75th percentile	100% vesting	at or above the 75th percentile	<i>Vesting percentage</i>	<i>EPS growth targets</i>	Nil vesting	below 7.5% compound annual growth over the 3 year period	50% vesting	at 7.5% compound annual growth over the 3 year period	Pro-rated vesting between 50% and 100%	between 7.5% and 10% compound annual growth over the 3 year period	100% vesting	at 10% or above compound annual growth over the 3 year period
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Pro-rated vesting between 50% and 100%	between 7.5% and 10% compound annual growth over the 3 year period																				
100% vesting	at 10% or above compound annual growth over the 3 year period																				
Dividends and voting rights:	There are no voting or dividend rights until the Performance Rights vest and are automatically exercised and then ordinary shares are held in the Group.																				
Dividend reinvestment:	Additional Performance Rights are not granted as a result of holding Performance Rights when dividends are declared by the Group.																				
Restrictions on Performance Rights:	The CEO may not transfer or encumber the Performance Rights held under the Plan with a security interest without the consent of the Board.																				
Lapse of Performance Rights:	Performance Rights that have not vested as at the relevant performance measurement date will automatically lapse, unless otherwise determined by the Board. All Performance Rights will also lapse in other circumstances, including, but not limited to, where the CEO has acted fraudulently or dishonestly in the opinion of the Board.																				

Directors' Report (cont.)

Key Management Personnel

The KMP are selected by the CEO in conjunction with the Executive Chairman and are accountable for planning, directing and controlling the affairs of the Group, and comprised the following people during the reporting year:

Name	Positions held	Entity	2012	2011
Barry Irvin ⁽¹⁾	Executive Chairman	Bega Cheese	•	•
	Non-executive Chairman	Tatura Milk	•	•
	Non-executive Deputy Chairman	CCFA	•	•
Aidan Coleman ⁽¹⁾	CEO	Tatura Milk	-	To 9 May
	Non-executive Director	Tatura Milk	•	From 10 May
	CEO	Bega Cheese	•	From 10 May
Maurice Van Ryn ⁽¹⁾	General Manager Sales & Marketing	Bega Cheese	To 31 Dec ⁽³⁾	•
	Non-executive Director	Tatura Milk	-	To 9 May
Colin Griffin ⁽¹⁾	Bega Franchise Manager	Bega Cheese	To 9 Apr	•
	Chief Financial Officer	Bega Cheese	•	•
	Non-executive Director	Tatura Milk	•	•
	Non-executive Director	CCFA	•	•
Paul van Heerwaarden ⁽²⁾	CFO	Tatura Milk	-	To 9 May
	Executive General Manager	Tatura Milk	•	From 10 May
	General Mgr Sales & Marketing	Bega Cheese	From 1 Feb	-
Grattan Smith ⁽¹⁾	General Manager – Supply Chain	Bega Cheese	•	•
Garth Buttimore ⁽¹⁾	General Manager – Operations	Bega Cheese	From 1 Dec	-
David McKinnon ⁽¹⁾	General Manager – Human Resources	Bega Cheese	From 16 Apr	-

• 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.

(3) Member of the Senior Executive team & KMP until organisational restructure as at 31 December 2011.

Total Employment Cost

Remuneration of each KMP is set having regard to the total employment cost (TEC) of that employee to the Group.

Base Remuneration

The Base Remuneration for each KMP 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 9% to 15% depending on the salary package agreed with each KMP.

At-risk Performance-based Remuneration 2012 – Short Term Incentive Scheme (2012 STI)

EXECUTIVE CHAIRMAN

The at-risk Key Performance Indicators (KPIs) for the Executive Chairman were determined by the Board at the commencement of the financial year. Payment of any 2012 STI was subject to a performance gateway of the Group achieving its profit before tax targets. These KPIs were chosen to directly align with the executive duties attached to the role of Executive Chairman, in particular the critical process of listing and then unifying with Tatura Milk, and then developing strategic and risk management plans which would see the listed entity with a pathway for secure growth in shareholder value in the foreseeable future.

The agreed KPIs were:

Key Performance Indicator	Outcome
Complete the process which sees Bega Cheese effectively list on the Australian Stock Exchange.	Achieved
Drive the purchase of the remaining 30% shareholding of Tatura Milk.	Achieved
Oversee the development and implementation of a 5-year Business strategic plan.	Achieved
Develop a comprehensive Risk Management framework which addresses all key risk areas.	Achieved

The Executive Chairman achieved 100% of his potential at-risk incentive of \$100,000 and forfeited 0%.

OTHER KEY MANAGEMENT PERSONNEL

The at-risk component for all other KMP for the year ended 30 June 2012 was determined in accordance with the 2012 STI plan approved by the Board. Under the 2012 STI plan, qualifying for any part of the at-risk component of the remuneration was subject to a number of conditions precedent, as detailed below.

Group performance gateways, which included group-wide profit, safety, quality and environmental measures were required to be met before any at-risk payments were authorised. This was important in order to ensure that:

- at-risk payments were aligned to key strategic and business objectives;

- no at-risk payments would be made unless the Group achieved or exceeded budgeted profit (having accrued for the payout of the at-risk program in that budget); and
- no at-risk payments would be made if the Group achieved or exceeded budgeted profit, but during the year there was a major safety, quality or environmental event which was within the reasonable control of the Group.

Individual gateways also applied to each KMP, related to individual performance, and participation in safety, quality and environmental programs. This was important in order to ensure that:

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

If Group and Individual gateways were both met, then KMP could achieve the following levels of at-risk payment:

40%	Upon reaching budgeted EBITDA
20%	Upon reaching agreed safety measures Observational safety contact rate & quality of these contacts (observations), together with Lost Time Injury Frequency Rate (LTIFR) and Workers Compensation premium as a % of total payroll.
40%	upon reaching stretch target EBITDA

For Aidan Coleman the remuneration at-risk totalled 43% of his base salary, whilst for other KMP the remuneration at-risk totalled 25% or 30% of their base remuneration. The actual financial performance of the Group for the year ended 30 June 2012 was such that the profit performance escalation factor was zero. Aidan Coleman had \$50,000 of his total at-risk remuneration subject to a budgeted cash-flow measure. He also had \$250,000 subject to Group performance against budget, stretch budget and OHS performance and achieved the following outcome:

KMP	Group gateways	Individual gateways	Budgeted EBITDA 40%	OH&S criteria 20%	Stretch EBITDA 40%	Budget cash flow \$50K	Total % achieved of \$250K	Forfeited %	Total Fixed Rem'n 2012 ⁽¹⁾ \$	Outcome \$
Aidan Coleman	•	•	40%	12%	0%	0%	52%	48%	700,000	130,000

Directors' Report (cont.)

All other KMP had the following at-risk criteria and achieved the following outcomes:

KMP	Group gateways	Individual gateways	Budgeted EBITDA 40%	OH&S criteria 20%	Stretch EBITDA 40%	Budget cash flow 0%	Total % achieved	Forfeited %	Total Fixed Rem'n 2012 \$	Outcome \$
Maurice Van Ryn	•	•	0%	12%	0%	0%	0	100%	93,420 ⁽²⁾	0 ⁽³⁾
Colin Griffin	•	•	0%	0%	0%	0%	0	100%	343,936	0 ⁽⁴⁾
Grattan Smith	•	•	40%	12%	0%	0%	52%	48%	283,339	9,208 ⁽⁵⁾
Garth Buttimore	•	•	40%	12%	0%	0%	52%	48%	319,000	29,029 ⁽⁶⁾
David McKinnon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	329,725	n/a ⁽⁷⁾
Paul van Heerwaarden	•	•	40%	16%	40%	-	96%	4%	414,638	119,416 ⁽⁸⁾

(1) Total fixed remuneration is the sum of base salary, superannuation and personal motor vehicle allowance.

(2) Maurice Van Ryn's remuneration package was reduced as from 1st January 2012 reflecting his decision to relinquish the role of General Manager – Sales & Marketing and assume a more specific business development role.

(3) As Maurice Van Ryn was engaged directly under the Bega Cheese Limited STI plan (independent of the Group-wide result inclusive of TMI) in the first half of the FY2012 year, he was not eligible to receive a payment under the Bega Cheese Limited STI plan.

(4) As Colin Griffin was engaged directly under the Bega Cheese Limited STI plan (independent of the Group-wide result inclusive of TMI) for the full FY2012 year, he was not eligible to receive a payment under the Bega Cheese Limited STI plan.

(5) As Grattan Smith was employed in a Group-wide role for 3 months of the FY2012 year, he was entitled to 25% of the calculated full year entitlement.

(6) As Garth Buttimore was employed in a Group-wide role for 7 months of the FY2012 year, he was entitled to 58.33% of the calculated full year entitlement.

(7) As David McKinnon was employed for less than three months prior to the end of the financial year, he was ineligible to participate in the STI program.

(8) As Paul van Heerwaarden was engaged directly under the Tatura Milk Industries STI plan (independent of the Group-wide result inclusive of Bega) for the full FY2012 year, he was eligible to receive a payment under the Tatura Milk Industries STI plan.

Relationship between remuneration policy and Group performance

Bega Cheese became a disclosing entity in FY2011 and as a result, the relationship between remuneration policy and Group performance has been assessed with effect from FY2011. The key indicators of Group performance and shareholder wealth relevant to remuneration of KMPs are as follows:

		FY2012	FY2011	Difference (Amount)	Difference (%)
Profit before tax	\$'000	27,079	22,090	4,989	23%
Profit after tax	\$'000	20,429	21,693	(1,264)	(6)%
Dividends per share	Cents	6.50	1.25	5.25	420%
KMP total remuneration	\$'000	4,094	2,783	1,311	47%

As shares in Bega Cheese have only been publicly traded since 19 August 2011 and the Company does not publicly disclose forecasts as to future financial performance the movement in share price is less relevant to the historical remuneration outcomes of the KMP.

Total KMP remuneration for FY2012 has increased 47%, whilst profit before tax has increased by 23%, profit after tax has decreased by 6% and dividends per share have increased by 420%. The rate of increase in KMP remuneration has exceeded the overall financial performance indicators of the Company primarily as a result of the following:

- On becoming a public listed company the Group strengthened the board of directors, increasing the number of directors from 5 to 8 and introducing two independent non-executive directors. The board also strengthened corporate governance, particularly through establishing a more focused charter for the Audit & Risk Committee and establishing the Nominations and Human Resources Committee.
- Acquiring full control of Tatura Milk resulted in a change to the management organisation structure, including the appointment of a number of organisation-wide roles. This resulted in a number of new executives becoming KMP and the remuneration of some existing KMP being re-set to reflect organisation-wide responsibilities and current market remuneration factors.
- Prior to listing employees of Bega Cheese were not entitled to hold shares in the Company. On listing a number of KMP became entitled to ordinary shares under the Employee Loyalty Offer. Shares issued under the offer were largely expensed in FY2012.

Remuneration Outcomes

The total remuneration outcome for the KMP, together with the remuneration of each Non-executive Director for each of the two years ended 30 June was as follows:

	Year	Short term employee benefits			Post employment benefits	Other long term employment benefits		Share based payments	Total
		Cash Salary and Fees	Bonus Payments ⁽¹³⁾	Non-monetary Benefits ⁽¹⁾	Super-annuation	Long Service Leave ⁽²⁾	Long term incentive	Equity settled	All amounts \$
Executive Chairman									
Barry Irvin ^{(3) (4)}	2012	461,394	73,580	-	42,306	(1,732)	-	-	575,548
	2011	494,495	91,686	-	23,171	5,397	-	-	614,749
Executives									
Aidan Coleman ⁽⁵⁾	2012	632,039	115,348	32,100	47,882	38,938	180,512	-	1,046,819
	2011	419,131	136,431	20,000	65,300	6,496	9,649	-	657,007
Maurice Van Ryn ⁽⁶⁾	2012	61,039	(1,047)	26,320	11,006	(2,785)	-	183,168	277,701
	2011	217,578	50,065	25,300	25,825	5,127	-	-	323,895
Colin Griffin	2012	309,361	(2,966)	26,065	23,557	8,938	-	162,816	527,771
	2011	296,334	67,847	25,300	23,416	7,792	-	-	420,689
Paul van Heerwaarden	2012	333,367	114,998	16,539	35,024	7,401	-	33,600	540,929
	2011	223,027	56,875	15,738	25,191	1,257	-	-	322,088
Grattan Smith	2012	205,483	5,164	14,500	35,889	21,408	-	40,704	323,148
	2011	165,880	37,870	14,800	28,578	5,305	-	-	252,433
Garth Buttimore ⁽⁷⁾	2012	169,408	29,029	7,646	16,917	1,823	-	-	224,823
David McKinnon ⁽⁸⁾	2012	63,214	-	1,416	5,689	569	-	-	70,888
Total Executive	2012	2,235,305	334,106	124,586	218,270	74,560	180,512	420,288	3,587,627
Remuneration	2011	1,816,445	440,774	101,138	191,481	31,374	9,649	-	2,590,861
Non-executive Directors									
Max Roberts	2012	61,718	-	-	5,555	-	-	-	67,273
	2011	51,372	-	-	4,624	-	-	-	55,996
Richard Parbery	2012	80,700	-	-	5,791	-	-	-	86,491
	2011	55,261	-	-	4,973	-	-	-	60,234
Richard Platts	2012	62,071	-	-	5,586	-	-	-	67,657
	2011	35,088	-	-	3,157	-	-	-	38,245
Tom D'Arcy ⁽⁹⁾	2012	30,335	-	-	2,730	-	-	-	33,065
	2011	34,340	-	-	3,090	-	-	-	37,430
Peter Margin ⁽¹⁰⁾	2012	72,973	-	-	6,072	-	-	-	79,045
Joy Linton ⁽¹¹⁾	2012	56,482	-	-	4,018	-	-	-	60,500
Rick Cross ⁽¹²⁾	2012	57,922	-	-	5,148	-	-	-	63,070
Jeff Odgers ⁽¹²⁾	2012	45,201	-	-	4,049	-	-	-	49,250
Total Non-Exec	2012	467,402	-	-	38,949	-	-	-	506,351
Remuneration	2011	176,061	-	-	15,844	-	-	-	191,905
Total KMP ⁽¹⁴⁾									
	2012	2,702,707	334,106	124,586	257,219	74,560	180,512	420,288	4,093,978
	2011	1,992,506	440,774	101,138	207,325	31,374	9,649	-	2,782,766

(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 Group and Tatura Milk.

(4) Reduced LSL accrual due to lower base salary remuneration in FY2012.

(5) Bonus payments include an estimate of \$180,512 in respect of a long term incentive based on the achievement of specified milestones of the CEO's LTI Scheme, the terms of the scheme having been formalised in FY2012. This reflects the valuation of share rights due to vest in 2014.

(6) Maurice Van Ryn relinquished his role as General Manager – Sales and Marketing on 31 December 2011.

Directors' Report (cont.)

- (7) Garth Buttimore joined Bega Cheese Limited on 1 December 2011.
(8) David McKinnon joined Bega Cheese Limited on 16 April 2012.
(9) Tom D'Arcy retired as a Director on 23 December 2011.
(10) Peter Margin commenced as a Director on 27 June 2011.
(11) Joy Linton commenced as a Director on 24 October 2011.
(12) Rick Cross and Jeff Odgers both commenced as Directors on 23 December 2011.
(13) Bonus payments include adjustments made to the final payment of prior year bonus amounts compared with the figure disclosed in the 2011 Annual Report.
(14) The material increase in total remuneration is discussed above in the section on the relationship between remuneration policy and Group performance.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATION

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

ROUNDING OF AMOUNTS

The Group is of a kind referred to 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.

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 29.

AUDITOR

Details of the amounts paid or payable to PwC Australia 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 in accordance with advice from the Audit and Risk Committee are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

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

The Directors are satisfied that the provision of non-audit services by PwC Australia, 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 29.

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



Barry Irvin
Executive Chairman
Sydney



Joy Linton
Independent Director
Melbourne

24 August 2012



Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2012, 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, reading 'P.J. Carney'.

PJ Carney
Partner
PricewaterhouseCoopers

Sydney
24 August 2012

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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 its business. 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 Human Resources Committee (NHRC).

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.

SECURITY TRADING POLICY

Bega Cheese has adopted a security trading policy which is designed to ensure compliance with ASX Listing Rules. The policy also ensures directors and other KMP and their associates are aware of the legal restrictions in dealing in Bega Cheese securities while such a person is in possession of unpublished price sensitive information.

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 six Supplier Directors, including the Executive Chairman (Barry Irvin), and two Independent Directors.

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.

The Board is responsible for the setting of milk price to farmer suppliers. To assist it the Board agreed in May 2012 to establish a Milk Price Working Group, comprising the Executive Chairman, the Chair of the ARC, management and independent experts. The role of this working group is to provide advice to the Board specific to ensuring sustainable ongoing milk supply.

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 judgement 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.

Notwithstanding the above, 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 HUMAN RESOURCES COMMITTEE (RECOMMENDATION 2.4)

The NHRC was formed on 29 August 2011. The NHRC's Charter requires the NHRC to consist of at least three members. Currently, the membership of the NHRC 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 NHRC meets on at least a six-monthly basis. A quorum consists of three NHRC members. The NHRC may invite any person from time to time to attend meetings of the committee. More detail on the NHRC is given in the Remuneration Report.

BOARD PERFORMANCE EVALUATION (RECOMMENDATION 2.5)

Under its Charter, the NHRC 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).

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
- c. use Bega Cheese resources and property properly.

DIVERSITY POLICY (RECOMMENDATIONS 3.2, 3.3 AND 3.4)

The Group'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.

At 30 June 2012, the proportion of women employed by the group was as follows:

- Board of Directors 12.5%
- Bega Cheese Group 26%

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
- d. establishing programs to develop a broader pool of skilled and experienced senior management and board candidates.

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 Joy Linton; Independent Director as chair of the committee, Peter Margin; Independent Director and one non-Independent Director being Richard Parbery.

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.
- d. evaluating the adequacy of processes and controls established to identify and manage areas of potential risk.

Corporate Governance Statement (cont.)

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 has been agreed to plan meetings with external auditors at least twice a year and to review the interim and annual accounts and annual budget. Special meetings will be called as necessary.

Any Director is entitled to attend 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 www.begacheese.com.au.

In particular, Bega Cheese's website includes media releases, key policies and Board Committee charters. All relevant announcements made to the market and any other relevant information is 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 HUMAN RESOURCES COMMITTEE **(RECOMMENDATIONS 8.1, 8.2 AND 8.4)**

The responsibilities of the NHRC include matters relating to the remuneration policies and practices of the Group.

The membership and conduct of the NHRC are set out at Principle 2 above. The composition of the NHRC 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 NHRC 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	
		2012	2011
	Notes	\$'000	\$'000
Revenue	5	926,752	931,690
Cost of sales		(811,386)	(832,156)
Gross profit		115,366	99,534
Other income	5	9,141	7,533
Distribution expense		(30,872)	(25,343)
Marketing expense		(12,268)	(10,765)
Occupancy expense		(2,790)	(2,634)
Administration expense		(42,294)	(36,730)
Finance costs	6	(9,204)	(9,505)
Profit before income tax		27,079	22,090
Income tax expense	7	(6,650)	(397)
Profit for the year		20,429	21,693
Other comprehensive income:			
Cash flow hedges		(1,042)	3,442
Change in the fair value of other financial assets		(6,860)	10,474
Total other comprehensive (expense)/income		(7,902)	13,916
Total comprehensive income for the year		12,527	35,609
Profit is attributable to:			
Equity holders of Bega Cheese Limited		17,534	17,005
Non-controlling interests		2,895	4,688
		20,429	21,693
Total comprehensive income for the year is attributable to:			
Equity holders of Bega Cheese Limited		9,794	30,065
Non-controlling interests		2,733	5,544
		12,527	35,609
		2012	2011
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:	31		
Basic earnings per share		12.81	15.65
Diluted earnings per share		12.77	15.65

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

Consolidated Balance Sheet

		CONSOLIDATED	
	Notes	2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	30	6,053	20,587
Trade and other receivables	8	95,767	83,341
Other financial assets	9	318	2,489
Inventories	10	162,669	104,595
Assets held for sale	11	-	9
Total current assets		264,807	211,021
Non-current assets			
Other financial assets	12	30,903	37,010
Property, plant and equipment	13	204,596	197,866
Deferred tax assets	7	14,070	14,400
Intangible assets	14	1,580	1,788
Total non-current assets		251,149	251,064
Total assets		515,956	462,085
LIABILITIES			
Current liabilities			
Trade and other payables	15	130,869	117,764
Borrowings	16	12,816	22,006
Current tax liabilities		161	1,904
Provisions	17	21,464	18,872
Total current liabilities		165,310	160,546
Non-current liabilities			
Trade and other payables	18	7	148
Borrowings	19	102,013	94,300
Provisions	20	2,186	1,616
Total non-current liabilities		104,206	96,064
Total liabilities		269,516	256,610
Net assets		246,440	205,475
EQUITY			
Contributed equity	21	101,279	27,169
Reserves	22	25,515	46,057
Retained earnings		119,646	106,633
Capital and reserves attributable to owners of Bega Cheese Limited		246,440	179,859
Non-controlling interests	28	-	25,616
Total equity		246,440	205,475

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
	Contributed Equity	Share Based Payment Reserve	Capital Profits Reserve	Hedging Reserve	Fair Value Reserve	Transactions with non-controlling Interests	Retained Earnings	Non-Controlling Interests	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
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
Balance as at 1 July 2011	27,169	1,090	33,959	534	10,474	-	106,633	25,616	205,475
Profit for the year	-	-	-	-	-	-	17,534	2,895	20,429
Other comprehensive income for the year	-	-	-	(892)	(6,848)	-	-	(162)	(7,902)
Transactions with owners in their capacity as owners									
Contributions of equity net of transaction costs	33,989	-	-	-	-	-	-	-	33,989
Buy-back of shares	-	-	-	-	-	-	-	(58)	(58)
Issue of shares under employee share scheme (Note 32)	1,548	(1,065)	-	-	-	-	-	-	483
Employee share scheme costs	-	649	-	-	-	-	-	-	649
Share based payment relating to incentive (Note 32)	-	181	-	-	-	-	-	-	181
Dividends provided for or paid	-	-	-	-	-	-	(4,521)	-	(4,521)
Transactions with non-controlling interest	-	-	-	-	-	-	-	(1,227)	(1,227)
Acquisition of non-controlling interest in Tatura Milk - net of transaction costs (Note 28)	38,573	-	-	-	-	(12,567)	-	(27,064)	(1,058)
Balance as at 30 June 2012	101,279	855	33,959	(358)	3,626	(12,567)	119,646	-	246,440

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

Consolidated Statement of Cash Flows

		CONSOLIDATED	
	Notes	2012 \$'000	2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		945,638	980,246
Payments to suppliers and employees inclusive of goods and services tax		(944,365)	(893,851)
Interest and other costs of financing paid		(8,772)	(8,934)
Income taxes paid		(3,040)	(3,582)
Net cash (outflow)/inflow from operating activities	30	(10,539)	73,879
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		388	456
Dividend received		1,250	327
Payments for property, plant and equipment	13	(27,569)	(24,817)
Payments for shares in listed companies		(3,813)	(22,235)
Expenses on merger with Tatura Milk		(570)	-
Proceeds from sale of property, plant and equipment		80	42
Proceeds from sale of shares in unlisted companies		114	-
Net cash (outflow) from investing activities		(30,120)	(46,227)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		38,213	20,000
Repayment of borrowings		(42,078)	(35,000)
Repayment of leases		(827)	(1,394)
Loans made to non-controlling interests		-	(2,753)
Share capital subscribed by members		35,000	8
Share capital purchased back from members		-	(2)
Expenses incurred in capital raising		(2,324)	-
Share capital subscribed by non-controlling interests		-	2,058
Share capital purchased back from non-controlling interests		(58)	(232)
Dividends paid to shareholders		(3,701)	(3,260)
Dividends paid to non-controlling interests		(1,227)	(4,659)
Net cash inflow/(outflow) from financing activities		22,998	(25,234)
Net (decrease)/increase in cash and cash equivalents		(17,661)	2,418
Cash and cash equivalents at the beginning of the year		20,587	18,169
Cash and cash equivalents at the end of the year	30	2,926	20,587
Non-cash investing activity	30		

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 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 24 August 2012. 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*. Bega Cheese is a for-profit entity for the purpose of preparing financial statements.

Compliance with IFRS

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

New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

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 Note 3.

b. Principles of Consolidation

Joint Venture

The proportionate interests in the assets, liabilities and expenses of joint venture activity have been incorporated in the financial statements under the appropriate headings. 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 2012 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).

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.

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.

Dividends

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

f. Government Grants

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

Government grants relating to 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.

g. Income Tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Financial Statements (cont.)

g. Income Tax (cont.)

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.

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 nature.

i. Business Combinations

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

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If 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

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.

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. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

l. Trade Receivables

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (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 administration expenses in profit or loss.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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.

Notes to the Financial Statements (cont.)

n. Investments and Other Financial Assets (cont.)

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 non-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. 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.

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

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

i. 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 Statement of Comprehensive Income. 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.

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

ii. Assets classified as Available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

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 within finance costs, 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 are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include 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.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's 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.

Notes to the Financial Statements (cont.)

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. 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 the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

s. Borrowings

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. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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, 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 periods 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 that match, as closely as possible, the estimated future cash outflows.

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

Retirement Benefit Obligations

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

Share-based Payments

During the year, Bega Cheese provided for share-based compensation benefits to be paid under the Bega Cheese and Tatura Milk Employee Share Scheme Plans. Information relating to these schemes 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.

The fair value of rights granted under the Bega Cheese share schemes is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance conditions.

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

Profit-sharing and Bonus Plans

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

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
- 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.

Notes to the Financial Statements (cont.)

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 2012 reporting periods. The Group’s assessment of the impact of these new standards and interpretations as applicable to the Group is set out below.

- i. AASB 9 Financial Instruments, 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.

*In December 2011, the IASB delayed the application of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

- ii. 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 focusses 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.

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.

- iii. 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.

- iv. 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.

- v. 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 33 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.

Notes to the Financial Statements (cont.)

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 2012 '000	JPY 2012 '000	EUR 2012 '000	USD 2011 '000	JPY 2011 '000	EUR 2011 '000
Trade Receivables	14,624	-	-	17,250	-	103
Trade Payables	-	-	-	2,036	-	255
Forward Exchange Contracts						
Buy foreign currency (fair value hedges)	4,479	-	239	2,036	-	255
Sell foreign currency (cash flow hedges)	36,110	3,248	-	51,026	1,626	-
Sell foreign currency (fair value hedges)	18,156	-	-	14,348	-	-

* There was no exposure to this foreign currency as at 30 June 2012.

Group Sensitivity

This is based on the financial instruments held on 30 June 2012, 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 2011 and has no impact on profit after tax due to the nature and accounting treatment of the instruments held. The Group sensitivity is detailed in the following table.

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
EQUITY		
AUD\$ strengthens 10% - increase/(decrease)	(2,511)	(3,234)
AUD\$ weakens 10% - increase/(decrease)	2,941	3,952

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 2012 and 2011.

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

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
LIABILITIES		
Fixed Rate Instruments		
Bank overdrafts and loans	289	726
Variable Rate Instruments		
Bank overdrafts and loans	114,540	114,841
Interest rate swaps (notional principal amount)	(28,100)	(36,200)
Net Exposure on liabilities to interest risk	86,729	79,367
ASSETS		
Fixed Rate Instruments	1,317	1,992
Variable Rate Instruments	6,053	20,587

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 2012, 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 \$607,000 (2011: \$550,000) higher or lower for the Group's net profit.

Notes to the Financial Statements (cont.)

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 2012 of 9,082,067 and a closing price of \$3.40 per share on that date, net of tax.

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
EQUITY		
Share price increases by 10% (2011: 5%) - increase/(decrease)	2,162	1,288
Share price decreases by 10% (2011: 5%) - increase/(decrease)	(2,162)	(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	
	2012	2011
	\$'000	\$'000
Cash and cash equivalents	6,053	20,587
Trade receivables	86,351	73,239
Other receivables	6,991	5,066
Vat loans to farmers	288	71
Advances to farmers	1,029	1,921
Fair value derivatives	318	2,489
Total	101,030	103,373

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.

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	
	2012	2011
	\$'000	\$'000
Not past due	73,938	56,182
Past due over 0-30 days	9,449	13,352
Past due over 30 days	2,964	3,705
Trade receivables at 30 June	86,351	73,239

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	
	2012	2011
	\$'000	\$'000
Undrawn facilities expiring beyond one year	85,371	39,017
Drawn facilities	114,829	115,567
Total facilities	200,200	154,584

Notes to the Financial Statements (cont.)

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 2012					
Consolidated Non Derivatives					
Secured bank loans	(18,059)	(105,287)	-	(123,346)	(114,829)
Trade and other payables	(130,450)	-	-	(130,450)	(130,450)
Derivatives					
Financial liabilities	(248)	-	-	(248)	(369)
Inflows	61,178	1,054	-	62,232	39,416
Outflows	(60,351)	(998)	-	(61,349)	(39,156)
Total	(147,930)	(105,231)	-	(253,161)	(245,388)
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)

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.

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)
- 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 2012 and 30 June 2011.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated				
Period Ending 30 June 2012				
Assets				
Financial assets at fair value through equity	30,879	-	24	30,903
Derivatives used for hedging	-	318	-	318
Total assets	30,879	318	24	31,221
Liabilities				
Derivatives used for hedging	-	(426)	-	(426)
Total liabilities	-	(426)	-	(426)
Period Ending 30 June 2011				
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)

Notes to the Financial Statements (cont.)

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 8 - Trade and other receivables and Note 10 - Inventories.

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 nutritional.

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 2012 is as follows:

Total sales revenue by segment	Bega Cheese \$'000	Tatura Milk \$'000	Group Eliminations \$'000	Group Total \$'000
Year Ending 30 June 2012				
Total sales revenue by segment	613,983	327,932	-	941,915
Intersegment revenues	(4,634)	(10,529)	-	(15,163)
Revenues from external customers	609,349	317,403	-	926,752
EBITDA	26,794	29,409	570	56,773
Interest revenue	238	190	-	428
Interest expense	(7,520)	(1,684)	-	(9,204)
Depreciation, amortisation and impairment	(13,322)	(7,596)	-	(20,918)
Profit before tax	6,190	20,319	570	27,079
Income tax expense	(1,259)	(5,391)	-	(6,650)
Profit after tax	4,931	14,928	570	20,429
Total segment assets	418,666	176,643	(79,353)	515,956
Total segment liabilities	212,501	59,506	(2,491)	269,516
Purchases of property, plant and equipment	8,638	18,931	-	27,569
Other items - IPO related expenses (before tax)	320	-	-	320

Total sales revenue by segment	Bega Cheese \$'000	Tatura Milk \$'000	Group Eliminations \$'000	Group Total \$'000
Year Ending 30 June 2011				
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, amortisation and impairment	(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 items - IPO related expenses (before tax)	1,669	-	-	1,669

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	
	2012 \$'000	2011 \$'000
Sales to External Customers in Australia		
Bega Cheese	530,702	551,440
Tatura Milk	105,792	82,535
Total sales to external customers in Australia	636,494	633,975
Sales to External Customers in Other Countries		
Bega Cheese	78,647	91,174
Tatura Milk	211,611	206,541
Total sales to external customers in other countries	290,258	297,715
Total sales to external customers	926,752	931,690

Notes to the Financial Statements (cont.)

c. Other Segment Information (cont.)

Revenues of approximately \$443,375,000 (2011: \$447,650,000) 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 2012				
Core	86,248	238,158	(15,163)	309,243
Fast moving consumer goods	527,735	-	-	527,735
Nutritionals	-	89,774	-	89,774
Sales by product	613,983	327,932	(15,163)	926,752
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

ii. EBITDA

The Board of Directors assess the performance of the operating segments based on a measure of EBITDA. In FY2012, the eliminations related to costs of issuing equity in Bega Cheese to former Tatura Milk shareholders. In FY2011, the eliminations related 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	
	2012 \$'000	2011 \$'000
Sales of Goods	926,752	931,690
Other Income		
Interest revenue	428	471
Royalties	5,417	5,280
Rental revenue	729	776
Dividends	1,250	327
Other	1,317	679
Total other income	9,141	7,533
Total	935,893	939,223

6. EXPENSES

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Loss on disposal of property, plant and equipment	100	33
Operating lease minimum lease payments	533	574
Increase in inventory provisions	2,020	1,073
(Write back) of bad and doubtful debts	(20)	(6)
Depreciation of non-current assets	20,710	20,690
Impairment of intangible assets	208	382
Employee benefit expense:		
Defined contribution superannuation expense	9,831	8,668
Other employee benefits expense	114,310	101,747
Total employee benefit expense	124,141	110,415
Finance costs:		
Interest on bank loans	8,750	8,396
Interest on obligations under finance leases	22	52
Other finance costs	432	1,057
Total finance costs	9,204	9,505

Notes to the Financial Statements (cont.)

7. INCOME TAX

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
a. Income Tax Expense		
Current tax charge	(8,207)	(1,378)
Deferred tax (expense)/benefit from the origination and reversal of temporary differences	980	(870)
Adjustments recognised in the current year in relation to current tax of prior years	577	1,851
Total income tax expense	(6,650)	(397)
b. Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
Profit from continuing operations before income tax	27,079	22,090
Tax expense at the Australian tax rate of 30% (2011-30%)	(8,124)	(6,627)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	568	138
Non-deductible expenses	(235)	(893)
Other assessable income	(161)	(313)
	172	(1,068)
Tax incentives	700	918
Other deductible expenses including dividends paid	25	4,520
Adjustments in respect of prior year	577	1,851
Other	-	9
Total income tax expense	(6,650)	(397)

The tax status of Tatura Milk changed in the current year upon completion of the merger with Bega Cheese. The increase in tax expense is due to a reduction in deductible expenses that Tatura Milk was able to claim whilst it was a cooperative for tax purposes. No current tax liability in respect of this tax is recognised on the balance sheet, as Tatura Milk can offset tax payable against carried forward tax losses included within the deferred tax asset. The adjustments in respect of prior year relate to the finalisation of the claim for the research and development tax concession.

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.

	CONSOLIDATED	
	2012 \$'000	2011 \$'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	2,923	(4,101)
Share issue costs charged to equity	994	-
Movement in hedging reserve	447	(1,081)
Total amount recognised through other comprehensive income	4,364	(5,182)

d. Movements in Deferred Tax

Movements in deferred tax in the year are detailed below:

	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
Consolidated				
Year Ending 30 June 2012				
<i>Deferred tax assets</i>				
Borrowing costs	67	4	-	71
Doubtful debts	10	(4)	-	6
Stock provisions	1,430	1,023	-	2,453
Sundry accrued expenses	2,776	(1,191)	-	1,585
Employee provisions	6,222	904	-	7,126
Leased assets	40	(40)	-	-
Employee share scheme	165	(165)	-	-
Share issues costs	-	(143)	994	851
Tax losses brought to account	10,628	(5,672)	-	4,956
Total deferred tax assets	21,338	(5,284)	994	17,048
<i>Deferred tax (liabilities)</i>				
Fair value investment	(4,101)	-	2,923	(1,178)
Property, plant and equipment	(2,390)	593	-	(1,797)
Fair value of derivatives	(447)	(3)	447	(3)
Total deferred tax (liabilities)	(6,938)	590	3,370	(2,978)
Total deferred tax	14,400	(4,694)	4,364	14,070
Year Ending 30 June 2011				
<i>Deferred tax assets</i>				
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
<i>Deferred tax (liabilities)</i>				
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

Notes to the Financial Statements (cont.)

Included in deferred tax assets are tax losses brought to account. Judgement has been applied in assessing the recoverability of these amounts which are governed by taxation rules set by the Australian Tax Office.

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	
	2012	2011
	\$'000	\$'000
Trade receivables	86,367	73,275
Allowance for impairment of receivables	(16)	(36)
	86,351	73,239
Goods and services tax (GST) receivable	6,869	4,998
Prepayments	1,108	3,044
Other debtors	122	68
Advances for vat loans	288	71
Advances to suppliers	1,029	1,921
Total	95,767	83,341

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 \$Nil (2011: \$2,152,000) relating to costs incurred in raising equity which have subsequently been charged against the equity funds raised on issuance. For further details see Note 21.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 8% (2011: 8%). 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 9% (2011: 10%).

Judgement is used in assessing trade receivables due from customers under product supply contracts which require a periodic reconciliation to specific terms of those contracts.

9. CURRENT ASSETS – OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
At fair value:		
Fair value of derivatives	318	2,489
Total	318	2,489

No material amounts were incurred due to ineffectiveness of cash flow hedges or gains or losses on fair value hedges attributable to the hedging instrument or the hedged item.

10. CURRENT ASSETS – INVENTORIES

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Raw materials and stores at cost	106,080	66,639
Finished goods at the lower of cost and net realisable value	56,589	37,956
Carrying amount of inventories at lower of cost or net realisable value	162,669	104,595

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

11. CURRENT ASSETS – ASSETS HELD FOR SALE

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
At lower of cost or fair value less costs to sell		
Property plant and equipment	-	9
Total	-	9

12. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Available for sale financial assets		
Listed equity securities	30,879	36,809
Unlisted equity securities	24	201
Total	30,903	37,010

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 in 2011 for \$22,234,000. In 2012, Bega Cheese's investment was increased to 16.6%, through the purchase of additional shares costing \$3,812,000 including dividend re-investment of \$1,249,000. 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. During the year, unlisted securities of \$177,000 were disposed of (2011: \$Nil). 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	
	2012	2011
	\$'000	\$'000
Land and buildings		
At cost	87,985	82,223
Accumulated depreciation	(24,472)	(21,668)
Total land and buildings	63,513	60,555
Plant and equipment		
At cost	328,831	309,686
Accumulated depreciation	(200,452)	(189,788)
Total plant and equipment	128,379	119,898
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,335)
Total leased assets	-	521
Construction in progress	12,704	16,892
Total property, plant and equipment	204,596	197,866

Notes to the Financial Statements (cont.)

13. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (cont.)

The movements in property, plant and equipment are:

	Construction in progress \$'000	Land and buildings \$'000	Plant and equipment \$'000	Leased assets \$'000	Total \$'000
Consolidated					
Period Ending 30 June 2012					
Balance at the beginning of the period	16,892	60,555	119,898	521	197,866
Capital expenditure	27,569	-	-	-	27,569
Disposals	-	(3)	(126)	-	(129)
Depreciation	-	(2,832)	(17,357)	(521)	(20,710)
Transfers	(31,757)	5,793	25,964	-	-
Balance at the end of the financial period	12,704	63,513	128,379	-	204,596
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

14. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Brand	405	405
Water rights	1,175	1,383
Total intangible assets	1,580	1,788
Movement in intangibles		
Balance at the beginning of the financial period	1,788	2,170
Impairment of water rights	(208)	(382)
Balance at the end of the financial period	1,580	1,788

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	
	2012	2011
	\$'000	\$'000
Trade payables	89,813	78,357
Accrued charges and sundry creditors	40,637	38,445
Total payables	130,450	116,802
Fair value of derivatives	419	962
Total	130,869	117,764

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	
	2012	2011
	\$'000	\$'000
Current - at amortised cost		
Bank overdraft	3,127	-
Secured term loans	9,689	21,267
Finance lease liabilities	-	739
Total	12,816	22,006

For further details on borrowings see Note 19.

17. CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Employee benefits	21,464	18,872
Total	21,464	18,872

Notes to the Financial Statements (cont.)

18. NON-CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Derivatives	7	148
Total	7	148

19. NON-CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Secured term loans	102,013	94,300
Total	102,013	94,300

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

- are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in Note 29
- 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; and
- are subject to separate equitable mortgages and floating charges over all the assets and undertakings of the respective entities.

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

20. NON-CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Employee benefits	2,186	1,616
Total	2,186	1,616

The number of employees in the Group at 30 June 2012 was 1,360 (2011: 1,334).

21. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
a. Share Capital		
Ordinary shares fully paid	101,279	27,169

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. 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 the new Constitution. Bega Cheese has only had one type of share capital since that date.

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 18,033,000 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. Bega Cheese incurred costs normally associated with issuing shares and listing on the ASX. At 30 June 2012, cumulative expenses of \$3,481,000 had been incurred (2011: \$2,746,000) of which \$2,602,000 (2011: \$1,044,000) were attributed to the new capital and were written off against the equity raised on listing, net of tax. Bega Cheese formally listed on the ASX on 19 August 2011, with ordinary shares in Bega Cheese being tradeable on the ASX from that date.

On 23 December 2011 Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares and as a result, secured 100% control of Tatura Milk. The shares were issued at \$1.65 per share, giving share capital issued of \$39,631,000. During the year to 30 June 2012 \$1,058,000 after tax was incurred as one-off costs in completing the merger with Tatura Milk, which was treated as a deduction against equity (2011: \$Nil). For further detail on the transaction, see Note 28.

On 1 May 2012, 287,201 shares were issued to staff of Tatura Milk under the Tax Exempt Plan and the Incremental Plan for no consideration, bringing the total number of shares issued to employees to 820,176. The shares were issued to Tatura Milk employees at \$1.68 per share. The total increase in equity in FY2012 due to employee share scheme issues was \$1,548,000 (2011: \$Nil). Further details on the share based payments are in Note 32.

b. Movement in Share Capital Value

	A Class Shares \$'000	B Class Shares \$'000	Ordinary Shares \$'000	Total Shares \$'000
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
Ordinary shares on issue at 1 July 2011	20,734	6,435	-	27,169
Transfers between classes	(20,734)	(6,435)	27,169	-
Issue of shares on listing	-	-	33,169	33,169
Employee share scheme issues	-	-	1,548	1,548
Issue of shares as consideration on merger with Tatura Milk	-	-	38,573	38,573
Dividend reinvestment plan issues	-	-	820	820
Ordinary shares on issue at 30 June 2012	-	-	101,279	101,279

Notes to the Financial Statements (cont.)

c. Movement in Number of Shares

	A Class Shares Number '000	B Class Shares Number '000	Ordinary Shares Number '000	Total Shares Number '000
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
Ordinary shares on issue at 1 July 2011	82,991	25,686	-	108,677
Transfers between classes	(82,991)	(25,686)	108,677	-
Issue of shares on listing	-	-	17,500	17,500
Employee share scheme issues	-	-	820	820
Issue of shares as consideration on merger with Tatura Milk	-	-	24,019	24,019
Dividend reinvestment plan issues	-	-	481	481
Ordinary shares on issue at 30 June 2012	-	-	151,497	151,497

d. Classes of Ordinary Shares

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

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Share based payment reserve	855	1,090
Capital profits reserve	33,959	33,959
Hedging reserve	(358)	534
Fair value reserve	3,626	10,474
Transactions with Non-controlling interest reserve	(12,567)	-
	25,515	46,057

b. Nature and Purpose of Reserves

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 Bega Cheese and Tatura Milk Tax Exempt Plans and the Incremental Share Plans. For further details see Note 32. 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 transactions with non-controlling interests reserve records the difference arising as a result of the acquisition of the non-controlling interest in Tatura Milk.

23. DIVIDENDS TO SHAREHOLDERS

	CONSOLIDATED	
	Full year 2012 \$'000	Full year 2011 \$'000
Recognised amounts:		
2012 Interim dividend of 3 cents	4,522	-
2011 Final dividend of 1.25 cents	-	1,359
2010 Final dividend of 7 cents	-	1,901
Unrecognised amounts:		
2012 Final dividend of 3.5 cents	5,315	-
Value of the dividend franking accounts	5,533	3,234

The dividends paid in 2012 and 2011 were fully franked. The 2012 final dividend will be 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.

The above amounts represent the balance of the franking account as at the end of the year, adjusted for franking credits that will arise from the payment of the provision for income tax.

Notes to the Financial Statements (cont.)

24. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2012 \$	2011 \$
Audit Services		
PwC Australia - Audit of financial report	289,840	303,250
PwC Australia - Review of financial report	88,000	127,000
Non-PwC Australia firm - Audit and review of financial report	14,500	10,000
Non-audit Services		
PwC Australia - Other services	190,900	648,055
Non-PwC Australia firm - Other services	82,500	60,000

The non-audit services provided to the Group by PwC Australia during the year ended 30 June 2011 included 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 2012 which result in the need to raise additional liabilities of the Group as at 30 June 2012.

26. COMMITMENTS

	CONSOLIDATED	
	2012 \$'000	2011 \$'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	4,034	7,074

b. Lease Commitments - Group as Lessee

Non-cancellable operating leases

Operating leases of \$1,274,000 (2011: \$1,049,000) 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	
	2012 \$'000	2011 \$'000
Within one year	659	615
Between one and five years	1,369	553
Total	2,028	1,168

c. Finance Leases

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:		
Within one year	-	761
Minimum lease payments	-	761
Future finance charges	-	(22)
Total lease liabilities	-	739
Representing lease liabilities		
Current (Note 16)	-	739
Total lease liabilities	-	739

The Group leased 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 were secured by the leased assets.

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	
	2012 \$	2011 \$
Sales made to CCFA	10,781,000	10,361,000
Rent paid by CCFA to Bega Cheese	205,344	176,400

Further details of the joint venture are included in Note 28.

Notes to the Financial Statements (cont.)

b. Key Management Personnel Remuneration

	CONSOLIDATED	
	2012	2011
	\$	\$
Short term employee benefits	3,161,399	2,534,418
Post employment benefits	257,219	207,325
Long term employee benefits	255,072	41,023
Share-based payments	420,288	-
Total	4,093,978	2,782,766

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

c. Equity Instrument Disclosures relating to Key Management Personnel

The number of shares in the Company held during the financial year by each Director of Bega Cheese and other Key Management Personnel of the Group, including their personally related parties are set out below.

2012 - Number of ordinary shares	Balance at start of year	Granted as part of Bega Cheese Share Plan (Tatura Milk staff)	Other changes during the year	Balance at the end of the year
Executive Chairman				
Barry Irvin	3,004,984	-	-	3,004,984
Executives ⁽¹⁾				
Aidan Coleman	-	-	130,000	130,000
Colin Griffin	-	-	120,000	120,000
Paul van Heerwaarden	-	20,000	-	20,000
Grattan Smith	-	-	1,526	1,526
Non-executive Directors				
Max Roberts	1,675,000	-	80,000	1,755,000
Richard Parbery	2,664,012	-	-	2,664,012
Richard Platts	3,537,956	-	142,291	3,680,247
Tom D'Arcy ⁽²⁾	1,280,276	-	(1,280,276)	-
Peter Margin	-	-	6,500	6,500
Joy Linton	-	-	20,000	20,000
Rick Cross	-	-	293,547	293,547
Jeff Odgers	-	-	163,174	163,174

2011 - Number of ordinary "A Class" shares, becoming ordinary shares at 30 June	Balance at start of year	Share split	Other changes during the year	Balance at the end of the year
Executive Chairman				
Barry Irvin	751,246	2,253,738	-	3,004,984
Non-executive Directors				
Max Roberts	418,750	1,256,250	-	1,675,000
Richard Parbery	666,003	1,998,009	-	2,664,012
Richard Platts	884,489	2,653,467	-	3,537,956
Tom D'Arcy	320,069	960,207	-	1,280,276

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 1 July 2010 and 30 June 2011.

Prior to Bega Cheese listing on the ASX, only current and former milk suppliers were eligible to hold shares in the Company. From 19 August 2011, in accordance with ASX listing rules, shares in the Company could be purchased by the public, including by members of staff and KMPs.

⁽¹⁾ Only KMPs with shareholdings are shown in the above tables.

⁽²⁾ Other changes during the year includes de-recognising shares attributable to a former KMP and does not reflect a disposal of shares.

d. Transactions with Directors and Director Related Entities

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:

	CONSOLIDATED	
	2012	2011
	\$	\$
Milk payments made by Bega Cheese	7,865,339	6,874,948
Amounts outstanding at year end	367,005	82,669

Tatura Milk has a "collaboration" agreement with the Gardiner Foundation to undertake research and development activities around energy efficiencies. In 2011, the Gardiner Foundation has secured a government grant and provided \$0.1m (Nil: \$0.3m) in funding to Tatura Milk in order to undertake a joint project. The Executive Chairman of Bega Cheese, Barry Irvin, is a Director of the Gardiner Foundation.

The Bega Cheese Group trades dairy products with WCB on normal commercial terms. During the year ended 30 June 2012 purchases totalled \$7,517,310 (2011: \$7,405,032) and sales totalled \$4,025,950 (2011: Nil). The Executive Chairman of Bega Cheese, Barry Irvin, became a Director of WCB in November 2010.

Notes to the Financial Statements (cont.)

28. SUBSIDIARY AND JOINT VENTURE

	Country of Incorporation	Class of Shares	2012 Holding %	2011 Holding %
Tatura Milk Industries Limited	Australia	Ordinary	100	70
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

During the period under review Bega Cheese secured 100% ownership of Tatura Milk by way of a merger under a scheme of arrangement in accordance with Section 412 of the Corporations Act 2001. The details of this merger were set out in a scheme booklet dated 17 November 2011, which was issued to the owners of Tatura Milk redeemable preference shares in November 2011. The key elements of the merger were as follows:

- Bega Cheese offered to acquire all of the Tatura Milk redeemable preference shares, representing approximately 30% of the total Tatura shares issued.
- At the time of the offer Bega Cheese held all of the ordinary shares of Tatura Milk, being approximately 70% of total Tatura Milk shares issued.
- Consideration for the offer was 2 Bega Cheese ordinary shares for every 1 Tatura Milk redeemable preference share.
- The value of Bega Cheese's offer was \$3.40 per Tatura Milk redeemable preference share, based on the weighted average price of Bega Cheese shares sold on the ASX from the date the merger was announced (4 October 2011) to the day before the date of the scheme booklet (16 November 2011).
- A general meeting and a scheme meeting of the relevant shareholders of Tatura Milk were held on 14 December 2011, at which time the shareholders overwhelmingly voted in favour of the merger.
- The Supreme Court subsequently approved the scheme and implementation of the scheme and the merger were completed on 23 December 2011.

As a result of the merger Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares. During the year to 30 June 2012 \$1,058,000 (2011: \$Nil) were incurred as one-off costs in completing the merger with Tatura Milk, which were treated as a deduction against equity.

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	
	2012	2011
	\$'000	\$'000
Income	16,611	16,362
Expenses	(14,629)	(13,852)
Profit after tax	1,982	2,510
Current assets	2,778	2,880
Long term assets	768	723
Total assets	3,546	3,603
Total current liabilities	2,167	1,781

29. CLOSED GROUP DISCLOSURE

Bega Cheese and Tatura Milk executed a deed of cross guarantee on 18 June 2012 under which each company guarantees the debts of the other. By entering into the deed, Tatura Milk has been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australia Securities and Investments Commission.

a. Statement of comprehensive income and summary of movements in consolidated retained earnings.

The above companies represent a "closed group" for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Bega Cheese Limited, they also represent the "extended closed group".

Set out below is a consolidated statement of other comprehensive income and a summary of movements in consolidated earnings for the year ended 30 June 2012 of the closed group consisting of Bega Cheese and Tatura Milk. No comparatives are given as the closed group was established after 30 June 2011.

	CLOSED GROUP	
	2012	2011
	\$'000	\$'000
Revenue	920,922	-
Cost of sales	(810,336)	-
Gross profit	110,586	-
Other income	9,080	-
Distribution expense	(29,250)	-
Marketing expense	(11,616)	-
Occupancy expense	(2,790)	-
Administration expense	(41,711)	-
Finance costs	(9,204)	-
Profit before income tax	25,095	-
Income tax (expense)/benefit	(6,650)	-
Profit for the year	18,445	-
Other comprehensive income:		
Cash flow hedges	(1,042)	-
Change in the fair value of other financial assets	(6,860)	-
Total other comprehensive income	(7,902)	-
Total comprehensive income for the year	10,543	-
Profit is attributable to:		
Equity holders of Bega Cheese Limited	15,550	-
Non-controlling interests	2,895	-
	18,445	-
Total comprehensive income for the year is attributable to:		
Equity holders of Bega Cheese Limited	7,810	-
Non-controlling interests	2,733	-
	10,543	-
Retained earnings at the beginning of the financial year	108,617	-
Profit for the year	15,550	-
Dividends paid	(4,521)	-
Retained earnings at the beginning of the financial year	119,646	-

Notes to the Financial Statements (cont.)

b. Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2012 of the closed group consisting of Bega Cheese and Tatura Milk. No comparatives are given as the closed group was established after 30 June 2011.

	CLOSED GROUP	
	2012	2011
	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	5,264	-
Trade and other receivables	95,388	-
Other financial assets	318	-
Inventories	162,438	-
Assets held for sale	-	-
Total current assets	263,408	-
Non-current assets		
Other financial assets	30,903	-
Property, plant and equipment	203,828	-
Deferred tax assets	14,070	-
Intangible assets	1,580	-
Total non-current assets	250,381	-
Total assets	513,789	-
Liabilities		
Current liabilities		
Trade and other payables	128,702	-
Borrowings	12,816	-
Current tax liabilities	161	-
Provisions	21,464	-
Total current liabilities	163,143	-
Non-current liabilities		
Trade and other payables	7	-
Borrowings	102,013	-
Provisions	2,186	-
Total non-current liabilities	104,206	-
Total liabilities	267,349	-
Net assets	246,440	-
Equity		
Contributed equity	101,279	-
Reserves	25,515	-
Retained earnings	119,646	-
Capital and reserves attributable to owners of Bega Cheese Limited	246,440	-

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	
	2012 \$'000	2011 \$'000
a. Reconciliation of Cash and Cash Equivalents		
Cash	6,053	20,587
Bank overdraft	(3,127)	-
Balance per statement of cash flow	2,926	20,587
b. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities		
Profit after income tax	20,429	21,693
Adjustments for non-cash items:		
Depreciation of non-current assets	20,710	20,690
Impairment of intangible assets	208	382
(Loss) on sale of		
property, plant and equipment	100	33
assets held for sale	9	-
Interest income received and receivable	(431)	(456)
Change in value of derivatives	-	(110)
Interest payable on leases	89	90
Dividend receivable	(1,250)	(327)
Non-cash employee benefit expenses - share based payments including transaction costs	1,548	1,090
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other debtors and GST recoverable	(14,382)	8,821
Inventories	(58,073)	17,936
Prepayments	1,936	(2,582)
Increase/(decrease) in liabilities:		
Trade creditors	11,455	11,358
Accrued expenses and sundry creditors	2,191	(3,653)
Increase/(decrease) in tax payable	1,760	(3,185)
Changes in provisions	3,162	2,099
Net cash flow from operating activities	(10,539)	73,879
c. Non-cash investing activity		
Acquisition of redeemable preference shares in Tatura Milk by means of issue of share capital	39,631	-

Details of the merger with Tatura Milk are set out in Notes 21 and 28.

Notes to the Financial Statements (cont.)

31. EARNINGS PER SHARE

	CONSOLIDATED	
	2012	2011
	Cents	Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	12.81	15.65
Diluted earnings per share	12.77	15.65
	2012	2011
	Number	Number
Weighted average of number of shares used as the denominator in calculating basic earnings per share	136,896,286	108,676,928
Adjustments for calculation of diluted earnings per share - Employee share scheme	362,500	2,988
Weighted average of number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	137,258,786	108,679,916
	2012	2011
	\$'000	\$'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	17,534	17,005

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

32. SHARE BASED PAYMENTS

a. Bega Cheese Group Share Plans

In FY2011, the Board established two employee share plans: the Tax Exempt Plan and the Incremental Plan. The aim of the plans was to reward staff for their loyalty and contribution to the listing of Bega Cheese on the ASX by a one-off issue of shares. 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 on 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 having regard to 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.

In FY2012 shares were issued to staff on two occasions, one to Bega Cheese staff and one to Tatura Milk staff. On 19 August, 532,975 shares were issued to Bega Cheese employees at \$2.00 per share, which was accrued as an expense in the FY2011 accounts. On 1 May 2012, 287,201 shares were issued to Tatura Milk employees at \$1.68 per share. The cost of \$482,000 was included in the FY2012 accounts.

The Retention Award vested on 20 August 2012 with 362,500 shares issued. The cost of these shares relating to FY2012 that was expensed during the year was \$649,000.

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

	CONSOLIDATED	
	2012	2012
	Number	\$'000
Shares issued to Tatura Milk staff		
Expense per profit and loss		
Tax Exempt Plan	76,250	128
Incremental Plan		
Loyalty Award	210,951	354
Shares issued to employees on 1 May 2012	287,201	482
	2011	2011
	Number	\$'000
Shares issued to Bega Cheese staff		
Expense per profit and loss		
Tax Exempt Plan	275,000	550
Incremental Plan		
Loyalty Award	270,000	540
Total expense of shares offered to Bega Cheese employees	545,000	1,090
Entitlements not taken up by employees	(12,025)	(25)
Shares issued to employees on listing on 19 August 2011	532,975	1,065

b. Expenses arising from Bega Cheese Limited Long Term Incentive Plan

During the year, an expense of \$181,000 (2011: \$Nil) was incurred in relation to the potential issue of shares under the Bega Cheese Limited Long Term Incentive Plan (Plan). Details of the Plan are set out in the Remuneration Report.

c. Expenses arising from share-based payments

Total expenses arising from share-based transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Entitlements due under employee share schemes		
Tax Exempt Plan	128	550
Loyalty Award	354	540
Retention Award	649	-
	1,131	1,090
Expense in relation to Long Term Incentive Plan	181	-
Total expense	1,312	1,090

Notes to the Financial Statements (cont.)

33. PARENT ENTITY FINANCIAL INFORMATION

a. Summary Financial Information

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

	BEGA CHEESE	
	2012 \$'000	2011 \$'000
Current assets	182,010	137,333
Total assets	418,666	340,503
Current liabilities	(108,716)	(118,713)
Total liabilities	(212,501)	(202,447)
Net assets	206,165	138,056
Shareholder's equity		
Issued capital on consolidation	101,279	27,169
Consolidation adjustment for cost of equity	570	-
Issued capital of parent entity	101,849	27,169
Reserves		
Share based payment reserve	855	1,090
Capital profits reserve	32,563	32,563
Hedging reserve	(256)	(332)
Fair value reserve	3,653	10,474
Retained Earnings	67,501	67,092
	206,165	138,056
Profit after tax for the year	4,931	7,202
Total comprehensive (loss)/income	(1,245)	18,263

b. Guarantees Entered into by Parent Entity

The parent entity has entered into a deed of cross guarantee in relation to the debts of its subsidiary as described in Note 29.

c. Contingent Liabilities of the Parent Entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

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

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$1,034,000 (2011: \$2,030,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

34. RECLASSIFICATION OF EXPENSES

In reviewing costs arising from servicing customers, it was noted that the classification of some costs had been made incorrectly in the prior period accounts. As a consequence, \$4,989,000 of costs has been reclassified in the prior period from cost of sales into administration costs. The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	BEGA CHEESE		
	30 June 2011 As Reported	(Increase)/ Decrease	30 June 2011 Restated
	\$'000	\$'000	\$'000
Cost of sales	(837,145)	4,989	(832,156)
Gross Margin	94,545	4,989	99,534
Administrative costs	(31,741)	(4,989)	(36,730)

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 34 to 79 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2012 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.
- c. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 29.

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
Sydney



Joy Linton
Independent Director
Melbourne

24 August 2012



Independent auditor's report to the members 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 2012, 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.

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Liability limited by a scheme approved under Professional Standards Legislation.



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 2012 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 18 to 28 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in a dark grey color.

PricewaterhouseCoopers

A handwritten signature of 'P.J. Carney' in a dark grey color.

PJ Carney
Partner

Sydney
24 August 2012

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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.

The shareholder information set out below was applicable as at 25 July 2012.

DISTRIBUTION OF EQUITY SECURITIES

HOLDING	NUMBER
1 – 1,000	1,475
1,001 – 5,000	1,278
5,001 – 10,000	265
10,001 – 100,000	414
100,001 and over	216
	3,648

There were 815 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

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

NAME	NUMBER OF SHARES	% OF ISSUED SHARES
Perpetual Limited	7,170,223	4.73%
JL & KD Kimber	5,014,984	3.31%
Paewai Pty Ltd	4,194,364	2.77%
RE Platts	3,680,247	2.43%
Aljo Pastoral Pty Ltd	3,004,984	1.98%
R & R Apps Pty Ltd	2,823,972	1.86%
Investors Mutual	2,819,585	1.86%
Jerang Pty Ltd	2,664,012	1.76%
M & C Moffitt	2,600,564	1.72%
C & M Beresford & B Game	2,179,288	1.44%
WF, RN & BJ Taylor	1,910,136	1.26%
Telstar Holsteins Pty Ltd	1,862,564	1.23%
SG Hiscock & Co	1,835,885	1.21%
NG & NG Pearce	1,816,388	1.20%
DMP Asset Management	1,805,222	1.19%
P Shearer	1,781,408	1.18%
S & M Roberts	1,755,000	1.16%
Jelgowry Pty Ltd	1,660,150	1.10%
C & B Cochrane	1,652,264	1.09%
SJ & M Guthrey	1,612,156	1.06%
	53,843,396	35.54%

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Performance Rights issued under Bega Cheese Limited Incremental Plan to take up ordinary shares	368,880*	8

* Maurice Van Ryn has been issued 114,480 performance rights and Colin Griffin has been issued 101,760 performance rights.

Shareholder Information (cont.)

SUBSTANTIAL HOLDERS

No shareholder holds more than 5% of the issued capital of the company. Under the Company's constitution a shareholder limit of 5% is in place until 19 August 2013.

VOTING RIGHTS

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

RESTRICTED SECURITIES

The following ordinary shares issued under the Bega Cheese Limited Tax Exempt plan are restricted from sale until the relevant three year period has been reached or an employee resigns from the company:

	NUMBER OF SECURITIES	MATURITY DATE
Ordinary shares issued to Bega Cheese employees	228,250	15 August 2014
Ordinary shares issued to Tatura Milk employees	76,250	1 May 2015
Total shares	304,500	



Senior Management Team

Left to right: David McKinnon, Colin Griffin, Grattan Smith, Aidan Coleman, Paul van Heerwaarden, Garth Buttimore.

Corporate Directory

ADVISORS

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

DIRECTORS & COMPANY SECRETARY

Directors

Barry Irvin
Executive Chairman

Max Roberts
Director

Richard Parbery
Director

Richard Platts
Director

Peter Margin
Independent Director

Joy Linton
Independent Director

Rick Cross
Director

Jeff Odgers
Director

Company Secretaries

Brett Kelly
Colin Griffin

SENIOR MANAGEMENT TEAM

Aidan Coleman
Chief Executive Officer

Colin Griffin
Chief Financial Officer

Paul van Heerwaarden
*General Manager
Sales & Marketing*

David McKinnon
*General Manager
Human Resources*

Garth Buttimore
General Manager Operations

Grattan Smith
General Manager Supply Chain

ENTITY INFORMATION

Bega Cheese Limited

Trading as "Bega Cheese"
ABN 81 008 358 503

The Annual Report includes the results of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the 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 or Tatura Milk) is the 100% subsidiary of Bega Cheese.

Capitol Chilled Foods (Australia) Pty Ltd

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

Principal Registered Office

23-45 Ridge Street
Bega NSW 2550
T: 02 6491 7777
E: admin@begacheese.com.au
W: www.begacheese.com.au

Share Register

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

Reporting Period

This annual report is for the year ended 30 June 2012 and is referred to as FY2012

Notes

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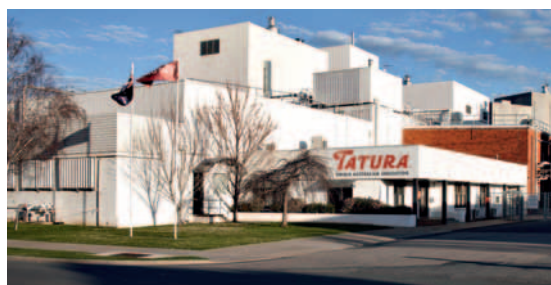
STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia



COBURG
10-16 Allenby Street
Coburg VIC 3058 Australia



BEGA HEAD OFFICE
23-45 Ridge Street
North Bega NSW 2550 Australia



TATURA
236 Hogan Street
Tatura VIC 3616 Australia



BEGA
11-13 Lagoon Street
Bega NSW 2550 Australia

