ASX ANNOUNCEMENT

Bega Cheese Limited

Release of Preliminary Results for the Year Ended 30 June 2015

Attached is Appendix 4E for Bega Cheese Limited for the year ended 30 June 2015.

B. G. Kelly

Company Secretary

27 August 2015

For further information please contact

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BEGA CHEESE LIMITED

4E PRELIMINARY FINAL REPORT

30 JUNE 2015

LODGEMENT DATE

27 AUGUST 2015

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 2015 and any public announcements made by Bega Cheese Limited ("Bega Cheese" or "Group") during the year ended 30 June 2015 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 2015 with the previous corresponding year to 30 June 2014. 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 2015, Bega Cheese Group delivered a net profit after tax of $12.4 million.

	2015	2014	Change	Change	Up/Down
Consolidated	**$'000**	**$'000**	**$'000**	**%**	
Revenue from ordinary activities	1,112,630	1,069,392	43,238	4	Up
EBITDA	41,978	122,506	(80,528)	(66)	Down
Profit after tax	12,408	66,055	(53,647)	(81)	Down
Profit after tax attributable to shareholders	12,408	66,055	(53,647)	(81)	Down
	cents	**cents**	**cents**		
Net tangible assets per share	203.7	206.0	(2.3)	(1)	Down

	Cents per Security	Franked cents per Security @ 30 % tax
Current Period		
2015 Final dividend - payable	4.50	4.50
2015 Interim dividend - paid	4.00	4.00
Previous Period		
2014 Final dividend - payable	4.50	4.50

	Record Date
Record date for determining entitlements to Dividends	
2015 Final dividend	4 September 2015
Date of payment of dividends	
2015 Final dividend	18 September 2015

The Bega Cheese Group Dividend Re-investment Plan is suspended.

3. EXPLANATION OF RESULTS

Continued growth in revenue despite significant decreases in global dairy commodity prices demonstrates the strength and effectiveness of Bega Cheese Group's strategy of focusing on higher value retail and food service products and dairy nutritionals. A 4% increase in revenue to $1,113 million was driven by a $72 million increase in sales of nutritional and consumer packed goods.

Growth in revenue from the Group's value added platforms was offset by a $29 million decrease in the value of global dairy commodity sales, particularly skim milk powder. The decrease in international commodity prices was not reflected in farm gate milk price with significant competition for milk resulting in more stable returns to dairy farmers throughout FY2015. The decrease in global commodity prices consequently directly impacted margins and financial outcomes of the Group in FY2015.

The statutory results reflect the significant impact of the global commodity pricing and highly competitive milk procurement environment, with EBITDA decreasing by 66% to $42 million and profit after tax decreasing by 81% to $12 million. However it is more appropriate to consider the comparative financial performance of the business before the effect of significant one off events in FY2014 and FY2015. These events were the sale of shares in Warrnambool Cheese and Butter Company Holdings Limited (WCB) which generated a profit before tax of $62 million (FY2014) and the implementation of the Milk Sustainability and Growth Program, a $25 million investment by the Group to ensure a sustainably produced and growing milk supply was secured in the long term (FY2014: $11 million and FY2015: $14 million).

After excluding the financial impact of the sale of the WCB shares and Milk Sustainability and Growth Program, the FY2015 EBITDA outcome of $56 million (down 21%) and the profit after tax outcome of $22 million (down 26%) more accurately reflects the actual financial performance of the business against FY2014.

In a challenging year, it has been pleasing to see significant progress being made on key strategic initiatives. The business continues to grow its consumer packaged goods business with the Bega brand now available in over 50 countries around the world. Our infant blending and canning facility at Derrimut which was commissioned in the concluding months of FY2014 has now progressed to 24/7 operation. Increased lactoferrin production capacity at Tatura has been utilised and a new $22 million bio-nutrient extraction facility has been approved for installation at the Bega Cheese Lagoon Street facility. The Group continues to invest in high quality globally competitive infrastructure with $18 million of capital in FY2015 expended mainly on nutritionals, cream cheese, consumer packaged goods and environmental projects.

Net tangible assets as at 30 June 2015 totalled $311 million, 1% below June 2014, mainly reflecting the payment of retained profits to shareholders in the form of dividends.

While the financial performance for FY2015 has not been as strong as the previous year, the fundamentals of the business remain very sound supporting a full year dividend outcome of 8.5 cps in line with FY2014.

The Group continues to maintain a strong balance sheet that supports ongoing investment in our key business platforms and is positioned well for value creating acquisition and rationalisation opportunities.

4. OTHER INFORMATION REQUIRED

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

BEGA CHEESE LIMITED

ANNUAL REPORT
2015

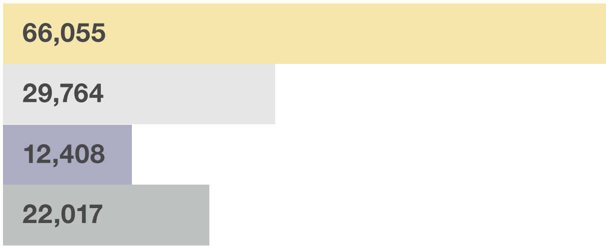
CONTENTS

KEY HIGHLIGHTS

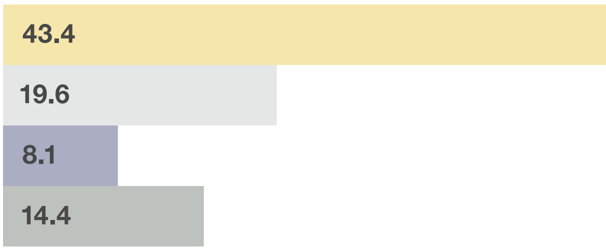
REVENUE ($'000)

EBITDA ($'000)

PROFIT AFTER TAX ($'000)



BASIC EARNINGS PER SHARE (CENTS)



TOTAL DIVIDEND PER SHARE (CENTS)

PRODUCTION VOLUME (TONNES)**

MILK SUSTAINABILITY AND GROWTH ($'000)

*Normalised refers to excluding the impact of significant events occurring during the year.

**Prior year production numbers have been restated in line with current year definitions.

The images included in the Annual Report include a selection of Bega Cheese Group's products, staff, sites, suppliers and their farms.

EXECUTIVE CHAIRMAN'S REVIEW

While FY2015 had its challenges in terms of global commodity prices and a highly competitive milk sourcing environment, it remains the case that strong growth and demand in our key product platforms confirms the Group's strategy of investment in higher value dairy products. The growth in revenue to $1,112.6 million in spite of major decreases in global commodity dairy prices is an excellent demonstration of the value added dairy products the Group is producing, particularly in the nutritionals and consumer packaged goods platforms of the business.

Significant reductions in global commodity prices were reflected in the revenues received for commodity products, which includes skim milk powders. While there has been some change in product mix, on a like for like volume there has been a decline in revenue from commodities of $29 million in FY2015 as a result of a reduction in dairy commodity prices being approximately 35% down when compared to FY2014.

The quality of the revenue stream and importance of the Group's strategy to progressively change our product mix to higher value added dairy products is demonstrated in strong revenue increases in our nutritionals and consumer packaged goods businesses. Against the backdrop of a significant decrease in global dairy commodity prices it is pleasing to report that combined revenue in the nutritionals and consumer packaged goods platforms increased by $72.2 million. The Group will continue to explore genuine value adding opportunities for its products and progressively reduce its exposure to both global dairy commodities and retail products that could be identified as being commoditised either now or in the future.

As in FY2014, our financial year reporting for FY2015 will focus on our normalised result which does not include the impact of our Milk Sustainability and Growth Program or the outcome of the sale of our investment in Warrnambool Cheese and Butter Company Holdings Limited (WCB) in FY2014. While the statutory profit after tax for the Group was $12.4 million, down 81% when compared to FY2014, it is a more appropriate assessment of financial performance for FY2015 to review the normalised outcome. The normalised profit after tax of $22.0 million was down 26% on the previous year which, as previously mentioned, was largely as a result of the Group's exposure to commodity products such as skim milk powder.

The financial impact of the significant decrease in global commodity prices saw normalised earnings per share (EPS) decrease to 14.4 cents per share. While the financial performance for FY2015 has not been as strong as the previous year, the fundamentals of the business remain very sound, including a strong balance sheet supporting a full year dividend outcome of 8.5 cents per share, in line with FY2014.

From a strategic perspective FY2015 delivered a number of important outcomes, including the continued growth of our value-added products, approximately 6% growth in milk supply and important developments in our newly created bio-nutrients platform.

The business continues to execute strategy in a timely and consistent manner, responding to market changes and long term demand signals.

A key step forward in FY2015 was the increasing to full scale production of our recently completed infant formula and growing up milk powders blending and canning plant at Derrimut. The first half of FY2015 saw the challenges of volume build and I am pleased to report that the facility has now moved to a third shift and is making an important contribution to our nutritionals platform.

Continued investment in our business platforms is vital to the long term success of Bega Cheese Group. The Group was very pleased to announce in FY2015 an important bio-nutrient investment at our Lagoon Street facility in Bega. The new facility will use state-of-the-art technology to extract high value whey proteins from our existing product streams. The investment of approximately $22 million, which will commence in FY2016, has been supported by the Federal Government through its Manufacturing Transition Program with a grant of $5 million to be received in FY2016 to FY2018.

Creating a business environment that encourages investment and innovation while also promoting international trade always needs to be a high priority for Government. I acknowledge the many initiatives of the Federal Government including the Manufacturing Transition Program and the focus on progressing trade agreements with Australia's global trading partners. Of particular importance to the dairy industry was the outcome of the Free Trade Agreement with China and I congratulate the Minister for Trade and Investment Andrew Robb and his team for their tireless work on that agreement and in the trade portfolio in general.

Bega Cheese Group's success has been built on the foundations of long term relationships with its customers, suppliers and shareholders. FY2015 has seen those relationships strengthen further. We continue to have very constructive value creating relationships with long-term corporate customers such as ALDI, Coles, Fonterra, Ingredia, Lacto Japan, Mead Johnson Nutrition, Meg-milk Snow, Mondelez, Woolworths and many others. In FY2015 we were pleased to execute long term supply contracts with Bellamy's for infant formula supply and Chongqing General Trading Group for the supply of Bega branded UHT milk.

When we think about our customers and their requirements and a strategy which will provide an efficient, sustainable supply chain we always begin by considering the long term sustainability of our milk supply and the market expectation of the manner in which our products are sourced and manufactured. The strategic investment in our Milk Sustainability and Growth Program has been very successful with over 93% of our milk supply committing to participate in an environmental and animal husbandry audit and a 3 year improvement program. Of the 93% that joined our sustainability program, 55% went on to participate in our growth program, which saw on farm growth projects with a value of in excess of $50 million initiated in the past year. Bega Cheese Group's investment will yield a sustainable and growing milk supply base capable of responding to market opportunities and expectations in Australia and internationally.

"Bega Cheese Group's success has been built on the foundations of long term relationships with its customers, suppliers and shareholders."

Barry Irvin *Executive Chairman*

Successful strategies must include developing and looking after people, with effective succession planning to ensure knowledge and experience is enhanced by fresh ideas and reflections. The Group continues to invest in staff development and training and we are seeing great outcomes across the entire business from that investment. We also remain alert to opportunities to recruit high quality skilled individuals with global knowledge and experience.

New skills and approaches have also been added to the Board with the appointment of Raelene Murphy as our newest Director. Raelene's experience in business strategy, financial management and governance make her an ideal replacement for Joy Linton who has relocated to London. Joy has made a great contribution to the Group's strategy and governance approach since joining the Board immediately after listing in 2011. We thank Joy for her service to the organisation and wish her all the best with her new executive role with Bupa UK.

Bega Cheese Group is very aware of the important role it plays in the regional communities we operate in. While it is always the case that we ensure we are strong supporters of charities and organisations that care for those in need in our communities, this year we were proud to also participate in an important ANZAC Centenary Project in Bega. 2015 is an important year for our nation. The foundations that many of this country's values were built on comes from the legend of the ANZAC, the battles at Gallipoli and the sacrifices made by our soldiers in World War I. The Bega Cheese ANZAC Living Memorial Project saw Bega Cheese staff and dairy farmer suppliers who had relatives involved in World War I document their stories for future generations. The project went beyond documentation of stories as many of our farmers embraced the opportunity to create lasting living environmental memorials by planting native vegetation shelter belts as part of their sustainability programs, dedicating them to the ANZACs.

A culture of constant review and close observance to changes in the environment is important in all businesses and particularly important in dairy. While we have seen a challenging year impacted by increases in global dairy production, Russian sanctions, significant decreases in dairy commodity prices, a relatively strong Australian dollar for the early part of FY2015 and a highly competitive milk procurement environment, we remain confident that the Group's strategy of investing in the key platforms of nutritionals, consumer packaged goods, core dairy ingredients and bio-nutrients is the right one.

As we look to FY2016 and beyond I remain positive regarding the outlook for the Bega Cheese Group business. As previously mentioned our key business platforms continue to grow, the Australian currency has weakened improving our competitive position and while commodity prices continue to be low, the outlook for demand remains strong and we expect some improvement in commodity prices during the 2016 calendar year.

In the past year the Group has successfully invested in a sustainable and growing milk supply, increased its capability and capacity in infant formula manufacture, built on its success in consumer packaged goods and taken important steps forward in the creation of a bio-nutrient platform. The Group continues to maintain a strong balance sheet which supports ongoing investment in our key business platforms and is positioned well for value creating acquisition and rationalisation opportunities.

In years of challenge you look to your team to perform and ensure the business remains focussed and on strategy. All the above initiatives will be important contributors to the financial performance and strategic positioning of Bega Cheese Group in the coming years. The achievements outlined above would not have been possible without the dedication and efforts of CEO Aidan Coleman, his Executive Team, management and the staff of Bega Cheese and I acknowledge and thank them all for their significant contribution. On a personal note, I would like to thank the Board, staff, suppliers and shareholders for their ongoing personal and professional support.

Barry Irvin
Executive Chairman
27 August 2015

MILK SUSTAINABILITY AND GROWTH PROGRAM

The Milk Sustainability and Growth Program is designed to encourage investment in farm sustainability and milk growth. Participating suppliers committed their milk supply to Bega Cheese Group for a three year period via a supply agreement. The intent of this initiative was to enable suppliers to be better positioned for the future and to provide Bega Cheese Group with an improved security of milk supply.

A Committee of the Board was formed to oversee the roll-out and monitoring of the project and met regularly to approve sustainability applications and review milk growth projects. The Committee operated under a formal charter, established guidelines and eligibility criteria to manage the wide range of circumstances that suppliers faced (relating to sustainability and growth issues) whilst maintaining the overall business goals.

The program implementation commenced on farm in May 2014 and applications closed in February 2015 with considerable activity taking place over that period. The project is now in a monitoring and review phase to ensure it meets the desired program outcomes.

As a result of this initiative the following outcomes were achieved across the Group's milk supply up to June 2015:

- 93% of the direct farm milk supply is now participating in the sustainability program and have signed supply agreements
- 55% of the milk supply is participating in the milk growth program
- 469 milk growth projects will be initiated across the three years of the program
- 29% projected milk increase from participating suppliers over the three years of the program
- Over $50 million invested in on farm initiatives, including an estimated $33 million farmer co-commitment to these projects.

SUSTAINABILITY PROGRAM

The main component of this program is the undertaking of the Bega Environmental Management System (BEMS) sustainability assessments. This is a facilitated self-assessment of each supplier's sustainability against 15 key indicators. The assessments are conducted by a trained Bega Cheese Group officer. Once completed, the supplier receives a summary report of the BEMS sustainability assessment with areas highlighted that require attention (for both regulatory and best practice compliance), and possible improvement projects to consider.

General responses from milk suppliers with respect to the assessment process have been positive, with the assessment increasing their understanding and awareness of sustainability issues. The wealth of data that has been collected will help Bega Cheese Group focus education and service delivery activities to ensure suppliers continue to improve their on farm sustainability.

Eddy and Sharon Kenna with their daughter (pictured above) from the Western District of Victoria identified via the assessment that wet weather effluent storage needed to be upgraded and expanded. They have now invested in a new 40 ML storage dam with associated irrigation infrastructure to utilise the nutrients for summer crop production.

MILK GROWTH PROGRAM

Under this component of the program, Bega Cheese Group supported on farm investment where existing suppliers have identified milk growth projects that would achieve at least a 20% increase in milk production at the end of the three year program period. Suppliers had to be participating in the sustainability program to be eligible for this support. The Committee was impressed with the quality and scale of projects that were presented. It was clear that suppliers had a desire for growth and were aware of the structural issues in their businesses that had been preventing this. The investment by Bega Cheese Group enabled suppliers to tap into that previously locked-up growth potential to provide a positive outcome for the suppliers and Bega Cheese Group.

The main areas of milk growth investment will include:

- Dairy shed expansions to milk more cows more efficiently
- Increased or improved irrigation infrastructure to facilitate increase in the milking herd
- Land purchases for farm expansion
- Feeding infrastructure such as feed pads
- Milking cattle purchases to increase herd sizes.

A growing and sustainable milk supply with strong commitment from the Group and its dairy farmer suppliers will assist Bega Cheese Group in meeting its long-term business growth objectives and clearly demonstrates the importance placed upon its milk supply – a great outcome for both supplier and the Group.

Bega Cheese Group will continue to grow and looks forward to supporting its milk suppliers as they grow sustainably into the future.

FEATURE ON INTERNATIONAL FOODSERVICE

Foodservice, or “out of home eating” covers a broad range of outlets and occasions. This feature focusses on the commercial foodservice area for Bega Cheese Group, which includes products for catering and food outlets such as hotels, restaurants, cafes and bakeries.

With greater than 50% of food expenditure being spent out of home in many Asian countries, foodservice is not a new phenomenon. Local open air food stalls, shopping mall eateries and food markets are common in urban centres across South East and North Asia. The popularity of foods such as pizza, burgers and bakery items such as cheesecake and desserts drive dairy consumption, which is a key recipe ingredient in these products.

Western style foodservice outlets have come through a period of rapid expansion in Asia, offering market penetration opportunities for certain types of dairy products unavailable through other channels. While forecast economic growth has slowed in parts of Asia, the longer term prospects for continued growth in foodservice remain strong, underpinned by:

- Rises in discretionary income
- Shifts from rural to urban dwelling
- Continued population growth
- Consumer popularity of western food and innovation in outlet offerings.

International foodservice accounts for 5% of Group sales and has risen by over 50% in the last three years to $60 million in FY2015. Bega Cheese Group is well positioned to continue its foodservice growth momentum, with its success due to a number of factors, including:

1. A strong path to market through its distributor network, established in 28 countries in Asia and the Middle East during a period of over 50 years. This enables Bega to access the best growth markets but also rapidly roll out new product innovation through an established selling network.
2. Manufacturing capability and scale in heavy consumption product segments such as mozzarella (pizzas, bakery), cream cheese (cheesecakes and desserts), processed cheese (burgers, sandwiches, bakery) and dairy powders (bakery).
3. Bega brand and product reputation, which has been exported to over 50 countries. Cream cheese and processed cheese products are bought by some of the world’s largest quick service restaurant and bakery chains. The product recipes are unique and are well known for their consistent high quality.
4. Initiatives such as in-market ‘Chef-Led’ selling and expansion of the product offering, accelerating sales growth in key markets such as China and increasing market penetration, insights and innovation.

Bega Cheese Group continues to build sales and distribution capability, broadening its product portfolio and manufacturing partnerships.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

BUSINESS OVERVIEW

In a challenging year for dairy it was important to ensure that the business maintained focus on our long term strategy of maximising the value of our products through consistent investment in, and development of our core business platforms of nutritionals, consumer packaged goods, and core dairy ingredients. The strategy of creating more value from existing product streams will be further enhanced by the establishment of our fourth business platform, bio-nutrients.

The beginning of the financial year saw a highly competitive milk procurement environment, as participants looked to actively firm up short and medium-term milk supply. This resulted in very strong opening committed milk prices across Australia, which were maintained for the duration of FY2015 despite significant reductions in dairy commodity prices.

Bega Cheese Group began FY2015 in a strong position in relation to milk supply, with the Milk Sustainability and Growth Program, launched in FY2014, providing an innovative connection with milk suppliers and investment in increasing sustainable milk supply into the future. Under this program, Bega Cheese Group made $25 million available to our dairy farmer suppliers for participating in the Sustainability and Growth Program and agreeing to supply Bega Cheese Group for a period of three years. The majority of the funds associated with the program were committed and paid in FY2014/FY2015.

Notwithstanding the fact that the vast majority of milk supply was committed for three years, Bega Cheese Group had to meet the competition in relation to the milk price it paid in FY2015. Bega Cheese Group is pleased that its milk suppliers received a highly competitive farm gate milk price in addition to the support they received under the Milk Sustainability and Growth Program positioning both the farmer suppliers and the Company well for the future.

Having successfully responded to competition for milk at the beginning of FY2015 Bega Cheese Group was anticipating a general recovery in dairy commodity markets in 2H FY2015. Unfortunately this recovery did not occur. In FY2015 global dairy commodities contracted significantly from the high prices of the prior year. The key challenge of FY2015 for the Australian dairy industry quickly became that of managing strong opening committed milk prices to milk suppliers against the backdrop of a continued contraction in dairy commodity values throughout FY2015.

> "Bega Cheese Group began FY2015 in a strong position in relation to milk supply, with the Milk Sustainability and Growth Program, launched in FY2014, providing an innovative connection with milk suppliers and investment in increasing sustainable milk supply into the future."

In facing this challenge we focussed our operations on optimising financial returns by directing milk through our network of dairy manufacturing sites across Victoria and New South Wales to extract the best value from milk solids sold into dairy commodity markets whilst still maintaining supply of a range of products to core customers. However, with a proportion of Bega Cheese Group's portfolio currently comprising dairy commodities, particularly skim milk powder, Bega Cheese Group was not entirely immune from the collapse in global dairy commodity markets in FY2015.

The committed milk price to farmers and the returns available from dairy commodities had a direct adverse impact on the financial performance of the Group in FY2015.

> "Bega Cheese Group focussed on optimising financial returns by directing milk to extract the best value from milk solids."

Aidan Coleman
Chief Executive Officer

FINANCIAL PERFORMANCE

This review refers to the continuing operations of the business, before the financial impact on profit of the Milk Sustainability and Growth Program in the prior and current year and the benefits of the sale of shares in Warrnambool Cheese and Butter Factory Holdings Limited (WCB) in the prior year. We will refer to this as the "normalised" result.

The table to the right shows the effect of the significant events on financial performance.

CONSOLIDATED	Per Financial Statements $'000	WCB outcome $'000	Milk Sustainability and Growth outcome $'000	Normalised outcome $'000
Period Ending 30 June 2015				
Revenue	1,112,630	-	-	1,112,630
Cost of sales	(991,538)	-	13,727	(977,811)
Gross profit	**121,092**	**-**	**13,727**	**134,819**
Other income and expenses	(79,114)	-	-	(79,114)
EBITDA	41,978	-	13,727	55,705
Depreciation, amortisation and impairment	(22,214)	-	-	(22,214)
EBIT	19,764	-	13,727	33,491
Finance costs	(3,330)	-	-	(3,330)
Profit before income tax	**16,434**	**-**	**13,727**	**30,161**
Income tax expense	(4,026)	-	(4,118)	(8,144)
Profit for the year	**12,408**	**-**	**9,609**	**22,017**
Gross profit margin	**11%**			**12%**
Basic earnings per share - cents	**8.1**			**14.4**
Period Ending 30 June 2014*				
Revenue	1,069,392	-	-	1,069,392
Cost of sales	(942,455)	-	10,569	(931,886)
Gross profit	**126,937**	**-**	**10,569**	**137,506**
Other income and expenses	(4,431)	(62,943)	-	(67,374)
EBITDA	122,506	(62,943)	10,569	70,132
Depreciation, amortisation and impairment	(22,904)	-	-	(22,904)
EBIT	99,602	(62,943)	10,569	47,228
Finance costs, net	(6,022)	918	-	(5,104)
Profit before income tax	**93,580**	**(62,025)**	**10,569**	**42,124**
Income tax expense	(27,525)	18,336	(3,171)	(12,360)
Profit for the year	**66,055**	**(43,689)**	**7,398**	**29,764**
Gross profit margin	**12%**			**13%**
Basic earnings per share - cents	**43.4**			**19.6**

*Amounts for FY2014 have been restated to be consistent with the reclassification set out in the financial statements, which has no effect on profit for the year.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

The normalised EPS for FY2015 was 14.4 cents, which represented a decline of 27% from the prior year. The Board has announced a final year-end dividend of 4.5 cents per share, bringing the full year dividend to 8.5 cents per share which maintains the prior year dividend despite the global volatility of dairy commodity prices and the consequential impact on Bega Cheese Group's financial performance in FY2015.

The business generated a 4% year-on-year growth in sales revenue to achieve record sales for the fourth consecutive year. Revenue grew by $43.2 million to $1,112.6 million. We consider this to be a very strong outcome given the significant decline in the values of dairy commodity products in FY2015.

The resulting normalised EBITDA from continuing activities was $55.7 million, being a decrease of 21% from the prior year. The normalised profit before tax was $30.2 million, declining 28% from the prior year.

The income tax expense on the normalised result is at an effective rate of 27.0% being slightly lower than the prior year. The Group generated a normalised profit after tax of $22.0 million, being a decrease of $7.7 million or 26% on prior year.

CASH FLOW AND DEBT

The decline in commodity markets impacted cash flows as the Group aimed to optimise financial returns and balance inventory requirements. The Group had a net cash outflow from operating activities of $17.3 million. After normalising for payments made to suppliers under the Milk Sustainability and Growth Program, the net cash inflow was $4.4 million compared with an inflow of $43.1 million in FY2014.

The other key elements of cash flows in FY2015 include:

- An increase in trade and other debtors of $11.6 million driven mainly by the increase in revenue
- An increase in inventory of $10.7 million driven by an increase in milk intake in the last quarter
- A decrease in trade and other payables of $25.1 million
- Payment of tax of $18.3 million from the sale of shares in FY2014 of WCB
- Capital expenditure on property, plant and equipment of $18.7 million.

SALES

In FY2015 the Group generated sales of $1,112.6 million compared to $1,069.4 million in FY2014. This growth across all key business platforms is a strong endorsement of our business development strategies despite global commodity returns dropping by 35% in FY2015.

The strategy of moving away from dairy commodities to produce a broad range of more stable consumer and foodservice products has provided Bega Cheese Group resilience to offset much of the global commodity decline in FY2015. Of the Group's total sales revenue in FY2015, approximately 60% was generated from consumer packaged goods while a further 13% was from nutritional products.

Highlights of the Group's continuing development of value added dairy products include:

- The investment in the infant nutritionals powder blending and canning operation at Derrimut, Melbourne. Having successfully addressed some commissioning issues early in FY2015 this plant is now operating effectively on a 24/7 basis to meet increased demand and the Board has approved further capital to expand capacity.
- The expansion of our international consumer channel and foodservice business driven by growth in South East Asia and China. These businesses now exceed $100 million in sales revenue and are a core focus for growth due to market size, price realisation and the strength of the Bega brand internationally. Bega Cheese's innovative 'Chef-Led' selling program continues to be instrumental in developing our Asian foodservice success.
- Contract packing of consumer cheese products continues to grow as we have developed the customer base and invested in new technology across the cheese cut-pack-processed factories to ensure we remain globally competitive as we expand in the growing Asian markets.
- While the Asian cream cheese business suffered from market oversupply and depressed pricing earlier in FY2015 we successfully reasserted our leadership position in this export market over the year and this category is now performing strongly.

We are actively establishing our bio-nutrients business as a fourth commercial platform for the Group. The expanded lactoferrin capacity at Tatura Milk Industries was fully utilised in FY2015. We forecast continued long-term growth in lactoferrin demand and have plans to invest in a bio-nutrient extraction facility at Lagoon Street, NSW. This investment has also been favourably supported by the Federal Government, which has committed to provide $5 million towards this investment under the Manufacturing Transition Program. We wish to acknowledge this support and thank the Federal Government for their active encouragement of technically advanced manufacturing processes that will assist in keeping Australian industries globally competitive.

The Group would not be successful without the continuing commitment to and support from each of our customers. We have a broad customer base domestically as well as across South East Asia, China, Japan and the Middle East. We would like to thank all of our customers for their continued support, particularly ALDI, Bellamy's, Coles, Fonterra, Mondelez and Woolworths in Australia and our international customers including

Chongqing General Trading Group (CGTG) in China, Ingredia in France, Lacto Japan and Meg-milk Snow in Japan and Mead Johnson Nutrition from the USA.

BEGA BRAND

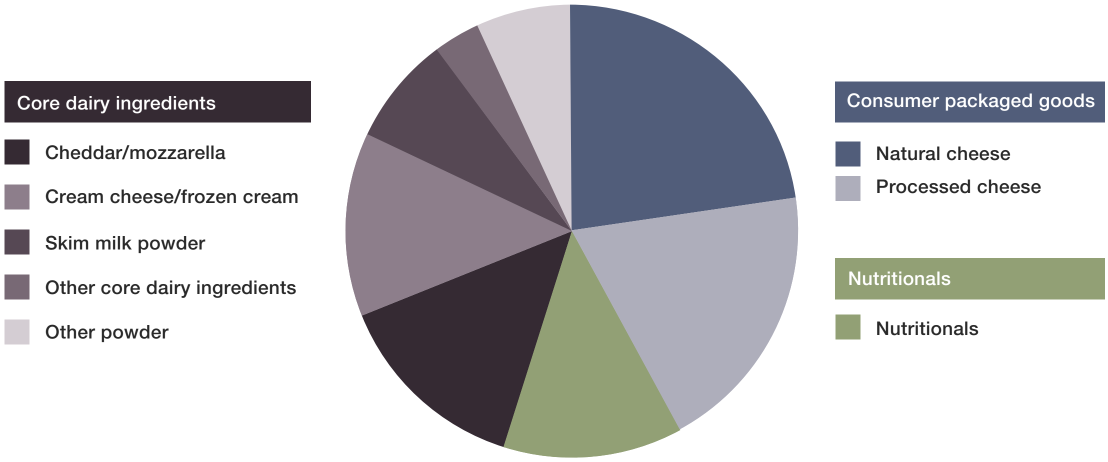
By the end of June 2015 the Bega brand had grown to a value market share of 15.3% in the Australian retail cheese category, further consolidating its position as the number one cheese brand in Australia. It is appropriate to recognise the excellent work by the team at Fonterra in Australia who represent our Bega brand under a franchise agreement in the Australian market.

In a global context the Bega brand is now available in over 35 countries. Bega branded products now include natural and processed cheese, mozzarella, cream cheese, butter, UHT milk and UHT cream.

A notable extension to the brand has been the introduction of Bega UHT milk into China in partnership with CGTG in South West China. This relationship has been instrumental in developing new channels for our products into China in both supermarkets and e-Commerce, which we see as the future of much of our business internationally. We see further international opportunities to leverage the Bega brand franchise across new products and markets.

OPERATIONS

The manufacturing operations of Bega are committed to continuous improvement and it is pleasing to see very positive results over the past year. The Group achieved record production output in FY2015 with total volume increasing by 4.2% to 224,986 tonnes. A summary of the volume of production is shown by platform in the chart below:



CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

The continuing focus on operational productivity across all six manufacturing sites resulted in a 3.2% decrease in the average conversion cost across the Group. This was particularly noteworthy in the cheese cut, pack and process facilities at Strathmerton and Ridge Street where we achieved a 6% increase in overall line efficiencies.

In addition to production line improvements the business also achieved a 4.2% reduction in energy use per tonne of production while overall water consumption across the Group dropped by 16.5%. The Operations Team continues to extract opportunities for improvements in this area of our business, with technology advancements assisting us in identifying new opportunities for performance improvement.

MILK PRODUCTION

We have a well-defined milk supply strategy that is aligned to our 2020 Strategic Plan, matching milk intake to optimal product demand. Total milk collected from our direct suppliers was 631 million litres, which is an increase of 6.4% over the prior year. The Milk Sustainability and Growth Program was a contributing factor to the growth in milk intake in FY2015.

In FY2015 the increase in milk supply resulted in higher closing inventories than in the prior year, impacting on working capital. However we consider this to be an acceptable situation given the alignment of milk supply to our production needs over the medium-term.

INVESTMENTS

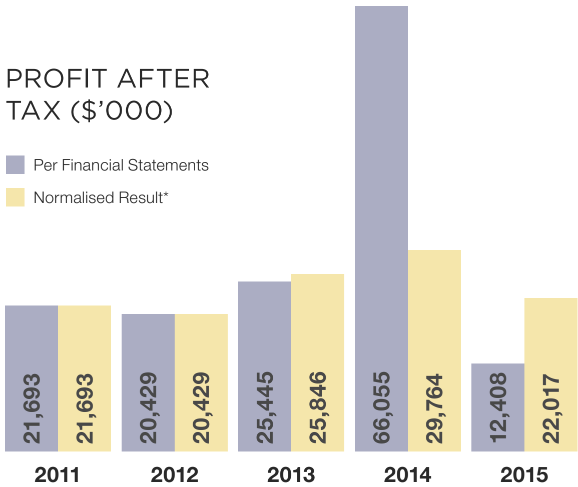
The Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra. The performance of CCFA has further deteriorated in FY2015, reflecting the competitiveness of retail milk pricing in the domestic market.

ENVIRONMENT

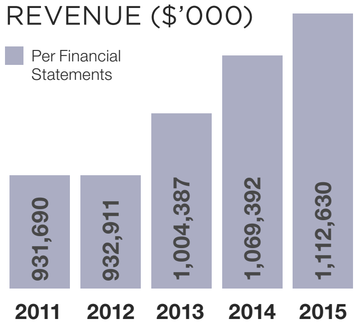
Bega Cheese manages manufacturing activities in regional areas to ensure that they are economically, socially and environmentally sustainable. The Group tracks environmental sustainability through a number of key performance indicators that are reviewed monthly. The Board and Management team is committed to identifying and managing economic, environmental and social sustainability risks, the long-term viability and sustainability of the dairy industry and the regional locations of our manufacturing plants.

Bega Cheese has also maintained close relationships and support for milk suppliers through development of environment management systems on farms. This, along with the Milk Sustainability and Growth Program, is focussed on protecting the environment whilst conducting profitable farming enterprises for the benefit of the industry in the long-term.

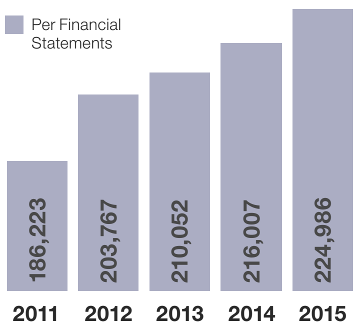
PROFIT AFTER TAX ($'000)



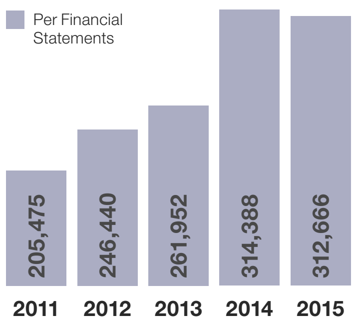
REVENUE ($'000)



PRODUCTION VOLUME (TONNES)



NET ASSETS ($'000)



*Normalised refers to excluding the impact of significant events occurring during the year.

Executive Team, from left to right: Grattan Smith, David McKinnon, Aidan Coleman, Garth Buttimore, Paul van Heerwaarden, Colin Griffin.

SAFETY

The organisation remains committed to continuous development and improvement of our safety systems, processes and staff engagement. Our goal of no injuries to anyone remains central to our core value of Safety Always. It is pleasing to note that our safety performance is on a path of continuous improvement. The number of lost time injuries (LTI's) reduced a further 11% in FY2015 and the lost time injury frequency rate (LTIFR) reduced by 17%.

PEOPLE

A key aspect of growing our business is to develop an organisational structure that speeds up decision making, enables greater accountability within the business and develops new leaders for more demanding senior roles in the future.

This is a core CEO focus at this time and is also a key component of succession planning within senior ranks. It is reassuring to note that we have a broad pool of capable, energetic and passionate young leaders emerging within the business who will be central to fulfilling the growth aspirations of the Group in coming years.

The extended management team is committed to continual cost control in order to retain global competitiveness. It is also recognised that control of costs in established areas of the business will free up resources to increase investment in new platforms such as bio-nutrients.

It is appropriate that I recognise the commitment of each of our 1,700 employees who drive the success of the Group. I would particularly like to thank my Executive Team for their focused leadership in what has been a dynamic year. We are committed to building on the successful base we have today to take the Group to new levels.

STRATEGIC OUTLOOK

The Board and executive have confirmed the 2020 Strategic Plan for the Group as a positive evolution of the strategy we have been working towards since listing on the Australian Securities Exchange in 2011.

We have reconfirmed our strategic focus to be on:

- Extracting increased value from our milk solids intake and improving returns from milk going into commodities, particularly skim milk powder
- Investing in existing business platforms to improve our competitiveness as well as to develop new international markets for these existing products
- Identify acquisition opportunities aligned to our core capabilities in dairy technology, manufacturing and market development of dairy foods.

We believe the outlook for global dairy markets will see short term price volatility, due to softer immediate demand, while the medium to long-term will see an increasing demand for dairy products, particularly from regions with restricted agricultural capabilities. We see this as a significant opportunity for Bega Cheese Group, given much of this growth in demand will come from the Asian region, in which we already have a sound presence.

The business continues to manage a range of contracts including those linked to underlying costs as well as those on pre-determined selling prices. Our key focus continues to be to provide safe food products competitively to our core customers and regional segments in order to generate acceptable returns to our customers, shareholders and broader stakeholders.

Aidan Coleman
Chief Executive Officer
27 August 2015

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THE ANNUAL FINANCIAL REPORT OF THE BEGA CHEESE GROUP FOR THE YEAR ENDED 30 JUNE 2015.

BARRY IRVIN AM

Executive Chairman

Director since September 1989.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

Director of Gardiner Foundation, Tatura Milk, Capitol Chilled Foods (Australia) Pty Ltd and Giant Steps Sydney Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Warrnambool Cheese and Butter Factory Company Holdings Limited.

SPECIAL RESPONSIBILITIES

Chair of the Board and member of the Nomination, Remuneration and Human Resources Committee until 1 July 2014.

RICHARD CROSS

BAgSci (Hon), GAICD

Director since December 2011.

EXPERIENCE AND EXPERTISE

Richard Cross has represented dairy farmers at various levels within the United Dairyfarmers of Victoria, and was recently a member of the Horizon 2020 working group. Richard Cross was a Director of Tatura Milk from 2003 to 2011.

OTHER CURRENT DIRECTORSHIPS

Director of Murray Dairy Inc.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee from 1 July 2014.

JOY LINTON

BComm, Grad Dip AFI, GAICD

Independent Director since October 2011 – resigned 31 May 2015.

EXPERIENCE AND EXPERTISE

Joy Linton had relocated to Bupa's London office and appointed to the role of General Manager, Health Services Bupa UK, when she resigned from the Bega Cheese Board in May 2015. She has 22 years of experience in strategic and financial roles with companies such as Bupa Australia, 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

Executive Director of Bupa Australia Holdings Limited and subsidiaries.

SPECIAL RESPONSIBILITIES

Chair of the Audit & Risk Committee and member of the Milk Sustainability and Growth Committee – resigned 31 May 2015.

PETER MARGIN

BSc (Hons), MBA

Independent Director since June 2011.

EXPERIENCE AND EXPERTISE

Peter Margin has many years of leadership experience in major Australian and international food companies. 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 Limited and has had experience at Heinz, Birds Eye Foods and Plumrose.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Nufarm Limited, PMP Limited, Pact Limited, Huon Aquaculture Limited and Costa Group Holdings Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Ricegrowers Limited.

SPECIAL RESPONSIBILITIES

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

RAELENE MURPHY

BBus, CA, MAICD

Director since June 2015.

EXPERIENCE AND EXPERTISE

Raelene Murphy is currently a Managing Director of the 333 Group, a leading specialist consultancy firm which provides strategic, financial and operational advisory services. She has over 30 years' experience in strategic, operational and financial roles in both industry and in professional services as a Partner. Her industry experience includes FMCG, supply chain, logistics and construction.

Raelene was the Chief Executive Officer of the Delta Group prior to her current role and has served in senior executive roles in the Mars Group.

OTHER CURRENT DIRECTORSHIPS

Director of EVZ Limited and DOXA Youth Foundation.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Audit & Risk Committee.

Directors, from left to right: Max Roberts, Richard Cross, Richard Platts, Barry Irvin, Peter Margin, Raelene Murphy, Jeff Odgers, Richard Parbery

JEFF ODGERS

BBus (Ag Mgt)

Director since December 2011.

EXPERIENCE AND EXPERTISE

Jeff Odgers owns and actively manages an expanding dairy farming business on two properties near Shepparton, Victoria. He has experience in regional and national dairy industry leadership roles. Jeff Odgers is a former Chairman of Murray Dairy Inc.

OTHER CURRENT DIRECTORSHIPS

Director of Dairy Australia Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Chair of the Milk Services Committee.

RICHARD PARBERY

FCPA, MAICD

Director since September 1988.

EXPERIENCE AND EXPERTISE

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

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Tatura Milk.

SPECIAL RESPONSIBILITIES

Member of the Audit & Risk Committee.

RICHARD PLATTS

Adv Dip Agr, GAICD

Director since November 2000.

EXPERIENCE AND EXPERTISE

Richard Platts owns and manages a large dairy farming business near Bega, NSW. He completed the Rabobank Executive Development Program in 2011. In the past he has represented dairy farmers on a number of organisations.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee.

MAX ROBERTS

MAICD

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 is also a member of the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS

Nil.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Chairman of Dairy Australia Limited.

SPECIAL RESPONSIBILITIES

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

PRINCIPAL ACTIVITIES

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and associated products. A number of key events in relation to the activities of the Group during the year ended 30 June 2015 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:

	2015 $'000	2014 $'000
Interim ordinary dividend for the year ended 30 June 2015 of 4.0 cents	6,104	-
Final ordinary dividend for the year ended 30 June 2014 of 4.5 cents	6,867	-
Interim ordinary dividend for the year ended 30 June 2014 of 4.0 cents	-	6,090
Final ordinary dividend for the year ended 30 June 2013 of 4.0 cents	-	6,074

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $6,867,000 (4.5 cents per fully paid share) to be paid on 18 September 2015.

REVIEW OF OPERATIONS

A comprehensive review of operations is set out in the Chief Executive Officer's review of operations and activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than that 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).

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

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Raelene Murphy was appointed to the Board on 1 June 2015. Joy Linton resigned as a director on 31 May 2015. In accordance with the Constitution, Barry Irvin, Richard Cross and Jeff Odgers are due to retire as Directors at the Annual General Meeting and, being eligible, offer themselves for re-election.

COMPANY SECRETARIES

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 30 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 32 years' experience. Colin Griffin's primary responsibility is as Chief Financial Officer.

MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit & Risk Committee, Nomination, Remuneration & Human Resources Committee, Milk Sustainability and Growth Committee and Milk Services Committee meetings held during the year ended 30 June 2015 and the number of meetings attended by each eligible Director and other members:

	Meetings of the Audit & Risk Committee	
	Held and Eligible	Attended
Raelene Murphy	1	1
Joy Linton	7	7
Peter Margin	8	8
Richard Parbery	8	8

	Meetings of the Nomination, Remuneration & Human Resources Committee	
	Held and Eligible	Attended
Peter Margin	3	3
Richard Cross	3	3
Richard Platts	3	3
Max Roberts	3	3

	Meetings of the Milk Sustainability and Growth Committee	
	Held and Eligible	Attended
Jeff Odgers	5	5
Joy Linton	5	2
Max Roberts	5	5

The last meeting of the Milk Sustainability and Growth Committee was held on 25 October 2014. The Milk Services Committee was established on 11 November 2014 which, amongst other things, assumed responsibility for administration of the Milk Sustainability and Growth Program.

	Meetings of the Milk Services Committee	
	Held and Eligible	Attended
Jeff Odgers	9	9
Max Roberts	9	9

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	14	14
Richard Cross	14	14
Joy Linton	13	13
Peter Margin	14	14
Raelene Murphy	1	1
Jeff Odgers	14	14
Richard Parbery	14	14
Richard Platts	14	14
Max Roberts	14	14

Joy Linton gave apologies in advance of the meetings she was unable to attend.

ENVIRONMENTAL REGULATIONS AND SUSTAINABILITY

Bega Cheese Group is committed to growing the business in a socially and environmentally sustainable manner. The Group works cooperatively with various stakeholders to ensure appropriate standards are adopted in operating the business.

The Bega Cheese Group team has continued to deliver improved efficiency and reduced resource intensity. The manufacturing sites have achieved the 5 year goal set in FY2011 to reduce energy intensity by 5% and delivered a 7% reduction compared to the base year.

The Bega Environmental Management System (BEMS) has continued to grow in 2015. The major focus for the year was on the implementation of the Milk Sustainability and Growth Program, including the completion of the BEMS sustainability assessments. The Group has also continued to be successful in partnering with other organisations to deliver programs direct to our suppliers, including receiving:

- grant funding of $850,000 over a three-year period from the Federal Government Department of Agriculture, and
- funding support of $495,000 provided by the NSW Local Land Service for on ground environmental works on dairy farms in the Bega region in 2015.

The Bega Cheese Group is very grateful for the support received in delivering environmental improvements, both through this funding and working with milk suppliers.

Other major initiatives included the continuation of the professional development program for our suppliers in the Tatura and Bega regions. The aim of the program is to help our farmers improve the efficiency of their businesses and reduce greenhouse gas emissions intensity. At Tatura a focus has also been the development of accredited nutrient plans to help our suppliers make informed, profitable nutrient management decisions. This program has been enthusiastically embraced by our suppliers at Tatura and we hope to extend this program to our other supplier regions in the near future.

Significant development of our "Farmsmart" application occurred over the year. The aim of the application is to give milk suppliers an easy to use tool available via mobile phones to help manage overall farm performance, quality assurance and provide farm mapping. Bega Cheese Group will be releasing the application to our supplier farmers in late 2015.

A cumulative summary of BEMS achievements to FY2015 are as follows:

Number of BEMS projects approved	147
Number of projects completed	95
Effluent systems upgraded	48
Fencing installed	220km
Streams protected	385ha
Wetlands protected	63
Riparian areas revegetated	204ha
Shade and shelterbelts created	108ha

ENVIRONMENTAL REGULATIONS AND MANAGEMENT

Bega Cheese Group is subject to the usual Federal and State environmental regulations. These include reporting requirements under the National Greenhouse and Energy Reporting Act 2007 (Cth), the Protection of the Environment Act 1997 (NSW), as well as the Clean Energy Act 2011 (Cth).

Reporting under the National Greenhouse and Energy Reporting Act 2007 continues after the repeal of the Carbon Tax and closure of the Environment and Resource Efficiency Program. The Group has complied with all annual reporting requirements due and will continue to monitor and report energy intensity and carbon footprint.

Bega Cheese Group's manufacturing sites are licenced under State Environment Protection 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.

The Group's Tatura and Coburg facilities operate under Trade Waste Agreements with the local municipal body for disposal of wastewater. Both sites maintain a close working relationship with the municipal body and work towards continuous improvement of the sites' environmental performance to deliver full compliance.

The Group's sites in Tatura, Strathmerton and Bega each enjoy an open and communicative relationship with the relevant regulators. The Strathmerton site meets current requirements of the regulators. The Tatura site is in the final stages of commissioning a major 'bag house' on one of its driers and completing other works in accordance with undertakings made with the regulators which will ensure compliance with requirements in accordance with timetables agreed with the regulators. The Bega management team is currently working with the regulator as it executes continuous improvement plans to address minor infractions in accordance with timetables agreed with the regulators.

REMUNERATION REPORT

INTRODUCTION

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, Chief Executive Officer (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 2015.

KEY MANAGEMENT PERSONNEL (KMP)

Details of Directors are set out in the Directors' Report on pages 16-17.

The CEO is appointed by the Board on recommendation from the Nomination, Remuneration and Human Resources Committee (NRHRC). Other KMP are appointed by the CEO in conjunction with the Executive Chairman. The CEO and other KMP comprised the following people during the whole of FY2015:

Name	Positions held	Entity
Aidan Coleman	CEO	Group
	Executive Director	Tatura Milk
Garth Buttimore	General Manager Operations	Group
Colin Griffin	Chief Financial Officer	Group
	Executive Director	Tatura Milk
	Non-executive Director	CCFA
Paul van Heerwaarden	General Manager Sales & Marketing	Group
	Executive Director	Tatura Milk
David McKinnon	General Manager Human Resources	Group
Grattan Smith	General Manager Supply Chain	Group

REMUNERATION GOVERNANCE

The NRHRC operates under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating Directors and other KMP.

The responsibilities of the NRHRC are to make recommendations to the Board in relation to the remuneration principles and practices for Directors and other KMP of the Group and to provide guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic human resource planning.

The NRHRC has two key roles:

1. to assess and make recommendations to the 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

2. to advise and assist the Board to ensure that the Group:

    a. has coherent human resources policies and practices which enable the Group to attract and retain executives and Directors who will create value for shareholders and that support the 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 the Group, the performance of the executives and the general remuneration environment

    c. has effective policies and procedures to attract, motivate and retain appropriately skilled people to meet the Group's current and future needs.

Further details of the role of the NRHRC are provided in the Corporate Governance statement.

REMUNERATION GUIDELINES

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

In setting the remuneration of KMP the Board takes recommendations from the NRHRC. In formulating its recommendations, the NRHRC takes into account a range of factors including Group financial performance and the remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a material factor in determining the total remuneration for each KMP.

Executive KMP have a significant amount of their remuneration directly related to budgeted profit, trade working capital and safety targets. Stretch targets provide the opportunity for executive KMP to derive additional remuneration at-risk (RAR) payments, where the achievement of performance criteria has a direct bearing on the earnings of the organisation and its potential to reward shareholders.

In reviewing KMP remuneration in FY2015, the General Manager Human Resources sourced current remuneration market data that focused on comparative organisations against criteria including revenue, market capitalisation, employee headcount and industry sector. The external information ("Godfrey Report") was compiled by Godfrey Remuneration Pty Ltd in August 2014 and the fee charged was $28,600.

The Board confirmed 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 was provided with a brief from the Chairman of the NRHRC to arrange an independent market review against practices of peer companies. Peer companies were independently selected by Godfrey Remuneration Pty Ltd.

This information was taken into account by the NRHRC in August 2014 to determine base salary adjustments for the Executive Chairman for his executive duties, and for the CEO and other KMP. The approved base salary adjustments were implemented with effect from 1 September 2014 and were either at or below the recommended levels contained in the Godfrey Report.

In the case of the CEO's long-term incentive, the granting of any performance rights over ordinary shares was linked to total shareholder return, earnings per share and return on funds employed.

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 Group performance. In setting fees, the Board takes into consideration the Group's existing remuneration policies, fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate calibre.

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles. Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Group. Pursuant to the Godfrey Report, Director's fees were increased by $4,000 per annum, inclusive of superannuation, from 1 November 2014.

During the year there were changes to the composition of the Board, as well as the Chairs and membership on three Board Committees, being the Audit & Risk Committee, the NRHRC and the Milk Services Committee, the latter which formally commenced in July 2014. No fees were payable to members of the Milk Sustainability and Growth Committee.

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

	Annual amount including super	
	Rate from 1/7/14 to 31/10/14	Rate as from 1/11/2014
Fees and allowances by role	$	$
Chairman of the Board	175,000	175,000
Director fees	77,000	81,000
Chair of Audit & Risk Committee	15,000	15,000
Audit & Risk Committee member allowance	7,500	7,500
Chair of NRHRC	12,000	12,000
NRHRC member allowance	6,000	6,000
Chair of Milk Services Committee	7,000	7,000
Milk Services Committee member allowance	3,500	3,500

REMUNERATION OF THE EXECUTIVE CHAIRMAN OF BEGA CHEESE GROUP

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

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

In FY2015, the Board reviewed the remuneration of the Executive Chairman for his executive duties, in conjunction with a recommendation from the NRHRC. In making its recommendation, the NRHRC took account of the benchmarking and related information referred to under "Remuneration Guidelines".

EXECUTIVE DUTIES AT BEGA CHEESE GROUP

The remuneration of the Executive Chairman for executive duties in FY2015 was set in accordance with the following principles:

- a base salary of $375,926, inclusive of superannuation, which was adjusted as from 1st September 2014 through the same benchmarking and recommendation process referred to under "Remuneration Guidelines".
- the base salary is not subject to specific performance or deliverables criteria, but is adjusted up or down for any fees the Executive Chairman may earn from his role as director of related organisations
- remuneration earned by the Executive Chairman during the year ended 30 June 2015 from his responsibilities as a Director of the Geoffrey Gardiner Dairy Foundation Ltd was specifically deducted from his base salary in accordance with the above principle. No other remuneration from related organisations was earned during the year
- a structured at-risk short-term incentive up to $110,185 that was subject to achievement of agreed outcomes, as approved by the NRHRC in August 2014
- in relation to the executive duties carried out by the Executive Chairman, the key terms of the existing employment contract with the Group was unchanged as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice. 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.

NON-EXECUTIVE DUTIES AT BEGA CHEESE GROUP

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

REMUNERATION OF THE CEO

The Board, having regard to recommendations received through the NRHRC, determines the remuneration of the CEO of the Group. The CEO's base remuneration was adjusted as from 1 September 2014 through the same benchmarking and recommendation process referred to under "Remuneration Guidelines".

The following principles apply to the remuneration of the CEO:

- a base salary of $779,815, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a structured at-risk short-term incentive for FY2015 of up to $334,540 subject to the achievement of agreed outcomes.

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 KMP

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

The base remuneration for each other KMP is determined as part of the annual remuneration and performance review process and comprises:

- a base salary, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period
- a structured at-risk component subject to the achievement of agreed outcomes
- superannuation contributions in accordance with the Superannuation Guarantee Act.

Remuneration of each other KMP is set having regard to the total employment cost of that employee to the Group. The base remuneration of other KMP was adjusted as from 1 September 2014 through the same benchmarking and recommendation process referred to under "Remuneration Guidelines".

Paul van Heerwaarden, Grattan Smith, Garth Buttimore and David McKinnon each have a 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	Six months' notice or payment in lieu of such minimum notice, or three months' notice where the termination is "for cause". 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 has a specific 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	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	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

INCLUSION OF AT-RISK COMPONENT IN TOTAL REMUNERATION PACKAGE

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

The determined criteria are reviewed by the Board on an annual basis to ensure that they closely align with the specific corporate, leadership and financial objectives of the Group. The strategic plan, business and operating plans and annual budgets are the key reference points used in setting the determined criteria. The Board approves the determined criteria each year for each KMP.

All Executive KMP had an agreed and documented performance agreement for the financial year that set individual performance objectives, described what success looked like for each objective and identified development opportunities that would help them in their current and any future roles.

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

Each Executive KMP's performance was assessed at the end of the financial year against each agreed objective and was rated as being "over achieved", "achieved" or "under achieved". Overall performance was assessed considering what was achieved in total across all objectives and how the objectives were achieved and by an assessment of personal adherence to the Company values.

Executive KMP whose performance is seen as under achieved will not receive a base remuneration review, nor are they entitled to any outcome under the RAR program.

Whilst performance of the individual executive KMP is an important criterion in adjusting their base remuneration, the remuneration recommendations of the NRHRC also take into account the financial performance of the organisation, including reference to the attainment of budgeted profit.

At the end of the financial year, the CEO assesses reports from Human Resources and Finance as to the actual performance of each KMP against the determined criteria. The CEO also considers the audited annual report and other factors in formulating a recommendation as to the outcomes for the at-risk component of the remuneration for KMP. A report and recommendation is then submitted to the Board via the NRHRC. Board approval is required before the at-risk component of the remuneration for each of the KMP is paid.

LONG-TERM INCENTIVE PLANS – CHIEF EXECUTIVE OFFICER

During the period 2011-2015 the CEO participated in the Bega Cheese Limited Long-Term Incentive Plans (Plans), which are detailed below. The purpose of the Plans was to incentivise and secure the services of the CEO during the immediate five-year period following the listing of the company in August 2011 on the ASX.

The number of performance rights issued under the Plans was determined by the Board having regard to the underlying base remuneration of the CEO before the benefit of the performance rights. The Plans give performance rights over ordinary shares in the Group on the terms and conditions as set out in the rules of the Plans.

SUMMARY OF PLANS

The 2011-2014 Plan performance hurdles are earnings per share and total shareholder return. The 2012-2015 Plan performance hurdles are earnings per share and return on funds employed. The details of each Plan are set out below:

LTI Plan 2012 – 2015

Grant Date:	30 October 2012
Vesting Date:	30 June 2015
Number of Performance Rights offered:	703,398 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right is converted into one fully paid ordinary share in the Group.
Exercise Price:	There is no exercise price payable in relation to the exercise of the performance rights.
Vesting Conditions:	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 performance period from 1 July 2012 to 30 June 2015.
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 50% of the performance rights granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets. Those EPS growth targets are set out in the table below and apply over the entire performance period.

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

Return On Funds Employed (ROFE) Performance Rights

50% of the performance rights granted will be subject to a performance hurdle based on the achievement of certain ROFE targets. Those ROFE targets are set out in the table below and apply over the entire performance period. ROFE is calculated as the Group's earnings before interest and taxation, adjusted for any non-operating items, divided by shareholder's funds plus total interest bearing debt.

Vesting percentage	ROFE growth targets
Nil vesting	below 14% compound annual growth over the performance period
50% vesting	at 14% compound annual growth over the performance period
Pro-rated vesting between 50% and 100%	between 14% and 19% compound annual growth over the performance period
100% vesting	at 19% or above compound annual growth over the performance period

For the FY2015 year no performance rights were awarded under the 2012-15 Plan, as both the EPS and ROFE targets were not met. As a result, the amount of $(372,630) was included in remuneration of the CEO for FY2015, which represents the write-back of expense incurred in prior periods relating to unvested rights that were forfeited during the period.

LTI Plan 2011 - 2014

Grant Date:	29 June 2011
Vesting Date:	30 June 2014
Number of Performance Rights offered:	714,286 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right is converted into one fully paid ordinary share in the Group.
Exercise Price:	There is no exercise price payable in relation to the exercise of the performance rights.
Vesting Conditions:	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.

Performance Hurdles:

Total Shareholder Return (TSR) Performance Rights

50% of the performance rights granted will be subject to the achievement of the relative* 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.

Vesting percentage	TSR targets
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

*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 prior to the start, and end, respectively, of the three year performance period.

Earnings Per Share (EPS) Performance Rights

50% of the performance rights granted will be subject to the achievement of the 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.

Vesting percentage	EPS growth targets
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

For the FY2014 year, 357,143 performance rights were granted with respect to achievement of the EPS target. The TSR target was not met. As a result, the CEO was issued 357,143 Bega Cheese Limited shares on 25 August 2014, which on the date of issue were valued at $1,882,144 using the closing share price.

REMUNERATION AT-RISK (RAR) OUTCOME

EXECUTIVE CHAIRMAN

The Board at the commencement of the financial year determined the RAR key performance indicators (KPIs) for the Executive Chairman. 40% of these KPIs relate to the financial performance of the Group. 60% of these KPIs directly align with the executive duties attached to the role of Executive Chairman and relate to outcomes of the Group’s strategic plan including strategic business development and KMP succession planning.

Payment for outcomes to the Executive Chairman under the RAR plan was subject to a number of Group gateways as detailed below:

Group performance gateways, which included profit, safety, quality and environmental measures, were required to be met before any at-risk payments were authorised. These gateways ensure that:

- at-risk payments were aligned to the Group’s 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)

- 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 that was within the reasonable control of the Group.

Whilst the Executive Chairman achieved in part or in full the personal KPIs which comprised 60% of his RAR, due to the Group gateway of a minimum 95% of profit before tax not being achieved, the Executive Chairman was not entitled to receive any payment under the approved RAR plan.

CHIEF EXECUTIVE OFFICER AND OTHER KEY MANAGEMENT PERSONNEL

The RAR component for each of the other KMP for FY2015 was determined in accordance with the 2015 RAR plan approved by the Board. Under the 2015 plan, qualifying for any part of the RAR component of their remuneration was subject to a number of conditions precedent, as detailed above for the Executive Chairman.

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

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

If Group and individual gateways were both met, then KMP could achieve a RAR payment based on the achievement of normalised Group EBITDA budget and stretch targets (60%), safety targets (20%), trade working capital budget target (10%) and personal development targets (10%).

For the CEO, the maximum RAR totalled 43% of total fixed remuneration, whilst for other KMP the maximum RAR totalled 30% of their total fixed remuneration, with the following outcomes being achieved:

KMP	Group gateways	Individual gateways	95% of Budget EBITDA 35%	100% Budget EBITDA +15%	105% Budget EBITDA +10%	OH&S criteria 20%	Working capital budget 10%	Personal objectives 10%	Total forfeited %	Total Fixed Rem'n 2015 $	Outcome $
Aidan Coleman	x	√	x	x	x	18%	0%	10%	100%	779,815	-
Garth Buttimore	x	√	x	x	x	18%	0%	10%	100%	356,186	-
Colin Griffin	x	√	x	x	x	18%	0%	10%	100%	411,008	-
Paul van Heerwaarden	x	√	x	x	x	18%	0%	10%	100%	459,855	-
David McKinnon	x	√	x	x	x	18%	0%	10%	100%	360,177	-
Grattan Smith	x	√	x	x	x	18%	0%	10%	100%	310,198	-

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 2011. The key indicators of Group performance and shareholder wealth relevant to remuneration of KMPs that have been extracted from the financial statements are as follows:

Key performance indicator		FY2015 Actual	FY2015 Normalised	FY2014 Actual	FY2014 Normalised	FY2013 Actual	FY2013 Normalised	FY2012	FY2011	FY2015 vs FY2014 Normalised Amount	%
Profit before tax	$'000	16,434	30,161	93,580	42,124	35,349	35,922	27,079	22,090	(11,963)	(28)
Profit after tax	$'000	12,408	22,017	66,055	29,764	25,445	25,846	20,429	21,693	(7,747)	(26)
Dividends per share	Cents	8.50	8.50	8.50	8.50	7.50	7.50	6.50	1.25	-	-
Earnings per share	Cents	8.1	14.4	43.4	19.6	16.8	17.0	12.8	15.7	(5.2)	(26)
Total shareholder return	%	(9.34)	(9.34)	92.05	92.05	65.94	65.94	(16.75)	n/a	(101.39)	(110)
KMP total remuneration	$'000	3,623	3,623	4,879	4,879	4,427	4,427	4,094	2,783	(1,256)	(26)

Total KMP remuneration for FY2015 has decreased by 26% from the prior year which is consistent with the lower level of profit after tax achieved by the Group in the year. Whilst normalised profit after tax reduced by 26% over the prior year, the decrease in Group performance was mainly due to external factors such as commodity prices and exchange rates. As budgeted profit was not achieved, no RAR payments were awarded to KMP and the hurdles for vesting of the 2012-15 LTI Plan were not met, reducing total KMP remuneration. The rate of KMP remuneration compared with historical performance should also be reviewed in the light of the following factors:

- on becoming a public listed company in August 2011, the Group strengthened the Board of Directors and corporate governance. As a result, Director numbers increased from five to eight including two independent Non-executive Directors

- acquiring full control of Tatura Milk resulted in a change to the management organisation structure in FY2012, 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 reset to reflect organisation-wide responsibilities and current market remuneration factors
- during FY2014, the Group indicators of key performance were influenced by key events including the sale of Warrnambool Cheese and Butter shares and the announcement of the Milk Sustainability and Growth Program as reflected in the normalised columns in the table above
- during FY2015, the Milk Sustainability and Growth Program continued as reflected in the normalised columns in the table above.

DETAILS OF REMUNERATION

		Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payment	Total
	Year	Cash Salary and fees	Short-term Incentive	Superannuation	Leave (1)	Equity settled performance rights (2)	All amounts
		$	$	$	$	$	$
Executive Chairman							
Barry Irvin (3)	2015	510,549	-	34,945	19,574	-	565,068
	2014	500,471	258,257	25,000	14,416	-	798,144
Executives							
Aidan Coleman	2015	739,416	-	35,000	64,697	(372,630)	466,483
	2014	717,613	224,617	25,000	16,744	292,634	1,276,608
Garth Buttimore	2015	322,948	-	34,568	25,022	-	382,538
	2014	319,938	71,415	25,000	5,786	-	422,139
Colin Griffin	2015	368,872	-	34,411	31,961	-	435,244
	2014	337,535	77,198	25,000	17,908	-	457,641
Paul van Heerwaarden	2015	427,432	-	30,000	(5,485)	-	451,947
	2014	417,758	93,303	25,000	12,080	-	548,141
David McKinnon	2015	329,179	-	34,958	13,033	-	377,170
	2014	320,389	72,913	25,000	4,846	-	423,148
Grattan Smith	2015	281,497	-	32,208	1,486	-	315,191
	2014	274,189	62,795	25,000	5,976	-	367,960
Total Executive Remuneration	2015	2,979,893	-	236,090	150,288	(372,630)	2,993,641
	2014	2,887,893	860,498	175,000	77,756	292,634	4,293,781
Non-executive Directors							
Richard Cross	2015	78,234	-	7,432	-	-	85,666
	2014	69,412	-	6,420	-	-	75,832
Joy Linton (4)	2015	80,214	-	7,620	-	-	87,834
	2014	83,142	-	7,691	-	-	90,833
Peter Margin	2015	99,167	-	-	-	-	99,167
	2014	95,333	-	-	-	-	95,333
Raelene Murphy (5)	2015	7,306	-	694	-	-	8,000
	2014	-	-	-	-	-	-
Jeff Odgers	2015	79,147	-	7,518	-	-	86,665
	2014	69,412	-	6,420	-	-	75,832
Richard Parbery	2015	79,604	-	7,562	-	-	87,166
	2014	76,277	-	7,056	-	-	83,333
Richard Platts	2015	78,234	-	7,432	-	-	85,666
	2014	74,905	-	6,928	-	-	81,833
Max Roberts	2015	81,430	-	7,735	-	-	89,165
	2014	74,905	-	6,928	-	-	81,833
Total Non-Executive Remuneration	2015	583,336	-	45,993	-	-	629,329
	2014	543,386	-	41,443	-	-	584,829
Total KMP	2015	3,563,229	-	282,083	150,288	(372,630)	3,622,970
	2014	3,431,279	860,498	216,443	77,756	292,634	4,878,610

(1) *The expense relates to the combined long service and annual leave accrual during the FY2015 year and long service in the FY2014 year.*

(2) *Amounts under share-based payments represent the accounting outcome for LTI Plans calculated in accordance with accounting standards. The amount of $292,634 in FY2014 reflects that year's portion of the accounting valuation of performance rights that were expected to vest in FY2014 and FY2015. The amount of $(372,630) in FY2015 reflects a write-back of expense incurred in prior periods relating to unvested rights that were forfeited in respect of the 2012-2015 LTI Plan. Further details of the CEO's LTI Plans, including the value of shares issued under the 2011-2014 LTI Plan, are set out in the Summary of Plans above.*

(3) *Includes remuneration for Non-executive Chairman responsibilities.*

(4) *Joy Linton resigned as a Director effective 31st May 2015.*

(5) *Raelene Murphy commenced as a Director effective 1st June 2015.*

RELATED PARTY TRANSACTIONS

SHARE HOLDINGS

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

2015 - Numbers of ordinary shares	Balance at start of year	Performance rights awarded during the year	Other changes during the year	Balance at the end of the year
Executive Chairman				
Barry Irvin	3,004,984	-	-	3,004,984
Executives				
Aidan Coleman	117,500	357,143	(199,643)	275,000
Colin Griffin	221,760	-	-	221,760
Paul van Heerwaarden	45,000	-	-	45,000
David McKinnon	5,000	-	-	5,000
Grattan Smith	26,966	-	(6,966)	20,000
Non-executive Directors				
Richard Cross	300,547	-	(12,393)	288,154
Joy Linton	20,000	-	(20,000)	-
Peter Margin	6,500	-	-	6,500
Raelene Murphy	-	-	-	-
Jeff Odgers	163,174	-	-	163,174
Richard Parbery	2,664,012	-	-	2,664,012
Richard Platts	3,480,014	-	-	3,480,014
Max Roberts	1,555,000	-	-	1,555,000

TRANSACTIONS RELATING TO MILK

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

	CONSOLIDATED	
	2015 $	**2014** $
Milk payments made by Bega Cheese Group	9,823,312	9,880,232
Amounts outstanding at year end	646,181	1,086,867

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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 in 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.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 27 August 2015, the Directors declared a final fully franked dividend of 4.50 cents per share, which represents a distribution of $6,867,000. No other matters or circumstances occurring subsequent to the end of the financial year have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future years.

AUDITOR

Details of the amounts paid or payable to PwC Australia for audit and non-audit services provided during the financial year are set out in note 30.

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

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

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

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

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

27 August 2015

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2015, 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.

SJ Bourke
Partner
PricewaterhouseCoopers

Sydney
27 August 2015

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CORPORATE GOVERNANCE STATEMENT

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

This Corporate Governance Statement outlines the extent to which the Group'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 Group 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 Group has not followed a Recommendation, this has been identified together with the reasons why it has not been followed.

The Board has formalised the new or revised Corporate Governance Principles and Recommendations contained within the 3rd edition of the ASX Corporate Governance Principles and Recommendations from 21 July 2014 as follows:

New or revised requirement	Approach by Bega Cheese Group
Recommendation 1.6 (process for periodic evaluation and reporting of the performance of the Board, its committees and individual directors).	This requirement was previously included in the Board Charter.
Recommendation 2.6 (program for inducting new directors and provide appropriate professional development opportunities).	This requirement was already being met and has now been included in the Board Charter.
Recommendation 4.3 (ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit).	The external auditor has been present at all AGMs since Bega Cheese Limited was listed and will continue to be invited to future AGMs.
Recommendation 7.3 (disclose the internal audit function, how the function is structured and what role it performs).	This has been detailed in the report below.
Recommendation 7.4 (any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks).	This requirement was already being met and has now been included in the Corporate Governance Statement.

Copies of all the Group's key policies and practices and the charters for the Board and its current Board Committees referred to in this statement are available in the corporate governance section of the Group's website at www.begacheese.com.au.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

BOARD AND MANAGEMENT FUNCTIONS (RECOMMENDATION 1.1, 1.3 AND 1.4)

The roles and responsibilities of the Board and Board Committees are defined in the Board Charter and the written charters of the Audit & Risk Committee (ARC), the Nomination, Remuneration and Human Resources Committee (NRHRC) and the Milk Services Committee.

The Board Charter also sets out the delegated responsibility of the CEO for the day-to-day management and operation of the Bega Cheese Group 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 maintain and enhance the reputation of the Group through active engagement with all key stakeholders.

Bega Cheese Group has written agreements with all Directors (as well as senior executives) setting out the key terms of their appointment. The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

BACKGROUND CHECKS ON DIRECTORS AND INFORMATION TO BE GIVEN FOR ELECTION OF DIRECTORS (RECOMMENDATION 1.2)

The Board will undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a director. If shareholders are making a decision on whether or not to elect or re-elect a director the Board will provide shareholders with all relevant information in its possession.

DIVERSITY POLICY (RECOMMENDATION 1.5)

The Group has a diversity and inclusiveness strategy to build a competitive advantage for the Group. The strategy requires a long-term commitment for leaders to embed a culture of enhanced thinking on how talent is recognised, harnessed, developed and rewarded. Diversity in the Group is about creating a respectful, inclusive work environment, which positions the Group to attain its business aspirations.

The focus of the strategy is in the areas of gender, organisational culture, leadership capability and cultural diversity.

At 30 June 2015, the proportion of women employed by the Group was as follows:

• Board of Directors	13%
• Managers (including senior executives)	23%
• Bega Cheese Group	28%

Bega Cheese Group's diversity strategies and measurable objectives are to:

a) increase the representation of women in management positions to 33% (currently 23%) within a 3 – 5 year period

b) establish personal development plans for all employees reporting to the Executive Team by 2015

c) have current senior female employees participate in a formal mentoring program

d) achieve a level of employee engagement across the Bega Cheese Group in the high performance zone (greater than 65%) within a 3 – 5 year period.

Bega Cheese Group is making satisfactory progress towards achieving the diversity strategy objectives. Documented development plans for all employees reporting to the Executive Team have been completed and have been reviewed by Executive Team in 2015. The NRHRC reviews succession processes and the succession plan six monthly to ensure that there is appropriate governance and progress to ensure a diverse workforce. A program for senior female employees to participate in a formal mentoring program has been identified and will be conducted in FY2016.

An employee engagement baseline survey across Bega Cheese was conducted in FY2014. The outcome of the survey was consistent with Australian related industry benchmark companies, just short of the high performance zone target. Action plans to address identified opportunities to further increase the level of employee engagement have been developed along with plans to move the business to the high engagement performance zone over the next three to five years. The engagement survey will be conducted again in FY2016 to review and measure progress.

BOARD PERFORMANCE EVALUATION (RECOMMENDATION 1.6)

An independent Board performance review process was undertaken during FY2015 designed to:

- Clarify the importance and benefits of the review process, including receiving feedback on a group and individual level
- Discuss expectations and concerns among the Directors on the direction of the business, the way the Board operates and the skills and capabilities which will be most critical for its Directors
- Provide the Executive Chairman and Directors with individual and group feedback against the skills and capabilities identified as critical for the Board.

The Board performance evaluation was completed in January 2015 in which the Directors were presented with and discussed the outcomes of the process that identified both group and individual development plans to be undertaken.

MANAGEMENT PERFORMANCE EVALUATION (RECOMMENDATION 1.7)

The performance of the senior executives is reviewed regularly against performance indicators determined by the Board. An evaluation of the performance of senior executives has taken place during the reporting period in accordance with the processes set out in the Remuneration Report.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

NOMINATION, REMUNERATION AND HUMAN RESOURCES COMMITTEE (RECOMMENDATION 2.1)

The NRHRC changed its name from the Nomination & Human Resources Committee in September 2014 to better reflect the role of NRHRC in setting remuneration strategies for the Group and in determining the remuneration of the Executive Chairman, the CEO and the CEO's direct reports. It meets at least six-monthly and has a quorum of three NRHRC members. The membership of the NRHRC is comprised of one independent Director (Peter Margin) as chair of the Committee and three non-independent Directors. The composition of the NRHRC does not comply with Recommendation 2.1 to the extent that it recommends that a nomination committee consists of a majority of Independent Directors. The NRHRC may invite any person from time to time to attend meetings of the Committee. More detail on the NRHRC is provided in the Remuneration Report.

The qualifications of the Committee members and their attendance at the meetings of the NRHRC are included in the Directors' Report.

DETAILS OF DIRECTORS (RECOMMENDATIONS 2.2, 2.3 AND 2.6)

Membership of the Board is currently comprised of six longstanding Supplier Directors, including the Executive Chairman (Barry Irvin), and two Independent Directors (Raelene Murphy and Peter Margin).

Within the context of the Board composition requirements of the Bega Cheese Constitution, the Group 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 governance and strategic direction.

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

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

This means that contrary to Recommendations 2.4 and 2.5, the Board does not include a majority of Independent Directors and does not have an Independent Chair (with the chair not being the same person as the CEO). 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 Group business and his specialist skills within the dairy industry.

The Group has a program in place for inducting new Directors and providing appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively. Each Director may, in appropriate circumstances and with the approval of the Executive Chairman, seek independent professional advice at the Group's expense.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

CODE OF CONDUCT (RECOMMENDATIONS 3.1)

Bega Cheese Group 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 the Group

b. act in accordance with all applicable laws, regulations, policies and procedures

c. use Group resources and property properly.

A copy of the Code of Conduct is available in the corporate governance section of the Group's website at www.begacheese.com.au.

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 relevant employees 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.

A copy of the Security Trading Policy is available in the corporate governance section of the Group's website at www.begacheese.com.au.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

AUDIT & RISK COMMITTEE (RECOMMENDATIONS 4.1 AND 4.3)

The ARC is comprised of one Independent Director (Raelene Murphy) as Chair of the Committee, one Independent Director (Peter Margin) and one Non-Independent Director (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.

The ARC regularly updates the Board on the activities of the Committee and brings 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. Special meetings are scheduled by the Chair of the ARC as necessary. Each member of the Board 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.

The qualifications of the ARC members and their attendance at the meetings of the ARC are included in the Directors' Report.

In accordance with the *Corporations Act 2001*, the lead partner and the review partner of the external auditor will be rotated at least every five years, and is next due in 2019. The external auditor is invited to attend Bega Cheese's Annual General Meeting to be available to answer questions from shareholders relevant to the audit.

CORPORATE GOVERNANCE STATEMENT

FINANCIAL RECORDS (RECOMMENDATION 4.2)

Prior to approving the Group's financial statements for FY2015, the Board has received from the CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

CONTINUOUS DISCLOSURE POLICY (RECOMMENDATION 5.1)

Bega Cheese Group is committed to observing its disclosure obligations under the Listing Rules and the *Corporations Act 2001*. Bega Cheese Group 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 SECURITY HOLDERS

COMMUNICATIONS POLICY (RECOMMENDATIONS 6.1 AND 6.2)

Bega Cheese Group is committed to keeping shareholders informed of all major developments affecting the Group 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 the ASX and publishing information on www.begacheese.com.au.

In particular, Bega Cheese Group'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 the Group's website as soon as practicable after it has been released to the ASX.

Bega Cheese Group has implemented a shareholder communications policy to facilitate two-way communication with shareholders and investors, and to encourage effective participation at shareholder meetings.

PRINCIPLE 7 - RECOGNISE AND MANAGE RISK

RISK MANAGEMENT POLICY AND RISK MANAGEMENT COMMITTEE (RECOMMENDATIONS 7.1, 7.2 AND 7.3)

The identification and proper management of the risks associated with the Group's business are important priorities of the Board. Bega Cheese Group 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 Board reviews the Group's risk management framework at least annually to satisfy itself that this framework continues to be sound. A review has been carried out by the Board during the reporting period covered by this Annual Report.

The CEO and Chief Financial Officer (CFO) have reported to the Board on the effectiveness of the Bega Cheese Group's management of its material business risks. Bega Cheese Group has an enterprise wide risk management framework which manages risks through understanding and responding to the uncertainties the Group faces including supporting the needs of our customers, enabling excellent supplier relationships, maintaining a safe and energised workforce with shared values and an agreed code of conduct.

The internal audit function provides independent and objective assurance on the adequacy and effectiveness of Bega Cheese Group's systems for risk management, internal control and governance, along with recommendations to improve the effectiveness and efficiency of these systems and processes. The Governance & Assurance Manager, reporting to the CFO, CEO and Chair of the ARC, oversees internal audit activities and ensures they are appropriately resourced.

ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS (RECOMMENDATION 7.4)

Bega Cheese Group is committed to identifying and managing the economic, environmental and social sustainability risks that could substantively impact our ability to create or preserve value for our key stakeholders over the short, medium or long-term. The Group is producing a sustainability report for FY2015, which will be available on the Group website later this year.

Economic Sustainability

Economic sustainability risks for Bega Cheese Group are substantively controlled by maintaining market share, proper brand management, facilitating growth through appropriate acquisition, proper fiscal management and anticipating and responding to changes in domestic and overseas markets in which the Group operates.

Bega Cheese Group has medium and long-term contractual arrangements with key partners that provide guidance as to volume expectations, market share performance criteria as well as development of new business and products. Brand performance monitoring and market research is tasked to the sales and marketing team who also maintain direct relationships with domestic and overseas agents and monitor regulatory changes in key countries. Bega Cheese Group exercises strong fiscal control through rigorous management of capital and operational budgets. Business cases are developed and reviewed for all capital projects with financial modelling and sensitivity analysis done for all major projects.

Environmental Sustainability

Bega Cheese Group manages risks related to environmental sustainability including the ability to secure milk from suppliers as well as risks associated with the manufacture of products. Major environmental spills, long-term environmental harm or licence breaches all represent risks to ongoing operations. The infrastructure at some sites limits the potential for expansion due to resource constraints such as access to water, energy and appropriate wastewater management options. These risks are managed through strategic site planning and close collaboration with local authorities and supply companies.

Operational environmental sustainability risks are managed by the Group's environment management systems. The manufacturing footprint and environment performance of each site is monitored against resource consumption and waste production to deliver continuous improvement across a range of intensity indicators.

The Milk Sustainability and Growth Program is an innovative program to secure milk supply while ensuring suppliers are focused on increased productivity and reducing their environmental footprint.

Social Sustainability

As a food producer, Bega Cheese Group's social sustainability risks include matters relating to the safety of the Groups' products and workforce as well as the role of the Group in our communities. Consumer safety is a top priority and any breach may also result in reputational damage. The Group's mature quality management system includes quality assurance, with complete traceability of all ingredients and products.

Safety at sites across the Group is material to our social sustainability. Safety is a core value of the Bega Cheese Group, with the aim to drive a deep safety culture within the organisation and the health and safety program being well supported by staff. Bega Cheese Group also has a talent matrix to develop staff which complements a health and well-being program to help make Bega Cheese an employer of choice in the industry. Engagement surveys provide feedback from employees which informs plans to retain and attract qualified and talented staff.

With Bega Cheese Group being primarily based in regional locations, the sustainability of these communities is a fundamental cornerstone of the Group's approach to business which seeks to support local organisations where possible. The Group makes significant contributions to charity through monetary contributions, encouraging staff to participate in volunteer work and partnering with organisations supporting rural activity such as the Australian National University Rural Clinical School. The business also contributes to the development of skills through training programs for the farming community.

PRINCIPLE 8 - REMUNERATE FAIRLY AND RESPONSIBLY

NOMINATION, REMUNERATION AND HUMAN RESOURCES COMMITTEE (RECOMMENDATION 8.1)

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

The membership and conduct of the NRHRC are set out at Principle 2 above. The composition of the NRHRC does not comply with Recommendation 8.1 to the extent that it recommends that a remuneration Committee consist of a majority of Independent 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 NRHRC is appropriate.

STRUCTURE OF REMUNERATION

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.

INDEX TO THE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		CONSOLIDATED	
	Notes	**2015** $'000	**2014** $'000
Revenue	5	1,112,630	1,069,392
Cost of sales		(991,538)	(942,455)
Gross profit		**121,092**	**126,937**
Other revenue	5	6,519	8,402
Other income	1c, 5	1,312	67,907
Distribution expense		(46,112)	(45,380)
Marketing expense		(10,685)	(9,061)
Occupancy expense		(3,659)	(3,295)
Administration expense		(48,596)	(46,484)
Finance costs	6	(3,644)	(6,392)
Share of net profit of joint venture	24	207	946
Profit before income tax		**16,434**	**93,580**
Income tax expense	7a	(4,026)	(27,525)
Profit for the year		**12,408**	**66,055**
Other comprehensive (expense)/income:			
Items that may be reclassified to profit or loss, net of tax			
Cash flow hedges		(742)	3,413
Change in the fair value of other financial assets		-	(6,901)
Total other comprehensive income		**(742)**	**(3,488)**
Total comprehensive income for the year		**11,666**	**62,567**
Profit attributable to owners of Bega Cheese Limited		12,408	66,055
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		11,666	62,567
		2015 Cents	**2014** Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:	3		
Basic earnings per share		8.1	43.4
Diluted earnings per share		8.1	43.2

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

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	10,284	28,630
Trade and other receivables	8	119,508	106,660
Derivative financial instruments	9	967	2,084
Inventories	10	194,889	184,167
Current tax assets		2,941	-
Total current assets		**328,589**	**321,541**
Non-current assets			
Property, plant and equipment	11	209,706	213,567
Deferred tax assets	7d	11,230	10,907
Intangible assets	12	1,797	1,481
Investments accounted for using the equity method	24	1,097	1,141
Total non-current assets		**223,830**	**227,096**
Total assets		**552,419**	**548,637**
LIABILITIES			
Current liabilities			
Trade and other payables	13	139,081	164,152
Derivative financial instruments	15	993	232
Borrowings	14	11,474	588
Current tax liabilities		1,186	22,425
Provisions	16	26,553	24,773
Total current liabilities		**179,287**	**212,170**
Non-current liabilities			
Borrowings	14	57,500	20,000
Provisions	16	2,966	2,079
Total non-current liabilities		**60,466**	**22,079**
Total liabilities		**239,753**	**234,249**
Net assets		**312,666**	**314,388**
EQUITY			
Contributed equity	17a	103,942	103,642
Reserves	18a	20,931	22,390
Retained earnings		187,793	188,356
Capital and reserves attributable to owners of Bega Cheese Limited		**312,666**	**314,388**
Total equity		**312,666**	**314,388**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Contributed equity	Share-based payment reserve	Capital profits reserve	Hedging reserve	Fair value reserve	Transactions with non-controlling interests	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2013	101,902	518	33,959	(3,226)	6,901	(12,567)	134,465	261,952
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**66,055**	**66,055**
Other comprehensive income for the year	**-**	**-**	**-**	**3,413**	**(6,901)**	**-**	**-**	**(3,488)**
Transactions with owners in their capacity as owners								
- Share-based payments relating to incentives (note 31)	-	293	-	-	-	-	-	293
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(12,164)	(12,164)
- Shares issued as consideration net of transaction costs (note 17)	1,740	-	-	-	-	-	-	1,740
Balance as at 30 June 2014	**103,642**	**811**	**33,959**	**187**	**-**	**(12,567)**	**188,356**	**314,388**
Balance as at 1 July 2014	103,642	811	33,959	187	-	(12,567)	188,356	314,388
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**12,408**	**12,408**
Other comprehensive income for the year	**-**	**-**	**-**	**(742)**	**-**	**-**	**-**	**(742)**
Transactions with owners in their capacity as owners								
- Issue of shares relating to incentives (note 17, 31)	300	(300)	-	-	-	-	-	-
- Share-based payments relating to incentives (note 31)	-	(373)	-	-	-	-	-	(373)
- Other share scheme movement (note 31)	-	(44)	-	-	-	-	-	(44)
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(12,971)	(12,971)
Balance as at 30 June 2015	**103,942**	**94**	**33,959**	**(555)**	**-**	**(12,567)**	**187,793**	**312,666**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,160,805	1,102,022
Payments to suppliers and employees inclusive of goods and services tax		(1,164,837)	(1,049,082)
Interest and other costs of financing paid		(3,437)	(5,327)
Income taxes paid	7f	(9,876)	(7,139)
Net cash (outflow)/inflow from operating activities	19	**(17,345)**	**40,474**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares in listed company	1c	-	98,906
Tax paid on sale of shares in listed company	1c	(18,336)	-
Payments related to corporate activity	1c	-	(4,357)
Interest received		301	370
Payments for property, plant and equipment	11	(18,729)	(27,923)
Payments for shares in listed companies	17b	-	(506)
Proceeds from sale of property, plant and equipment		89	507
Joint venture partnership distributions received	24	259	938
Net cash (outflow)/inflow from investing activities		**(36,416)**	**67,935**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		48,500	-
Repayment of borrowings		(114)	(90,313)
Dividends paid to members		(12,971)	(12,164)
Net cash inflow/(outflow) from financing activities		**35,415**	**(102,477)**
Net (decrease)/increase in cash and cash equivalents		**(18,346)**	**5,932**
Cash and cash equivalents at the beginning of the year		28,630	22,698
Cash and cash equivalents at the end of the year	19	**10,284**	**28,630**

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

NOTES TO THE FINANCIAL STATEMENTS

HOW NUMBERS ARE CALCULATED

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

A. MILK SUSTAINABILITY AND GROWTH PROGRAM

In March 2014, Bega Cheese Group announced it would allocate up to $25,000,000 to secure a long-term and sustainable milk supply. Farmer suppliers were invited to apply to enter the program with the first payments made in May 2014. Payments made under the Milk Sustainability and Growth Program are one-off in nature and intended to generate investments on-farm to improve sustainability of milk production, grow milk supply over time and secure the Group's milk pool in the medium term. The Milk Sustainability and Growth Program has been very well supported by farmer suppliers, with the program being closed to new applications in February 2015. In total, $24,296,000 was paid out under the program during FY2014 and FY2015. Amounts included in the financial statements are recognised on the basis of constructive obligations existing at reporting period end and are as follows:

	CONSOLIDATED	
	2015 $'000	**2014** $'000
Impact on cost of sales and EBITDA (note 2)	(13,727)	(10,569)
Impact on income tax expense (note 7)	4,118	3,171
Impact on profit for the year	**(9,609)**	**(7,398)**
Impact on cash flows for the year before tax	**(21,700)**	**(2,596)**

Of the $21,700,000 impact on cash flows paid out under the Milk Sustainability and Growth Program in FY2015, $7,973,000 was held in accruals in the balance sheet at 30 June 2014.

B. GOVERNMENT GRANT FOR INCREASING BIO-NUTRIENT MANUFACTURING CAPACITY

In June 2015, Bega Cheese was advised that the Federal Government had approved an application for a grant of $5,000,000 as part of the Government's Manufacturing Transition Programme to establish a bio-nutrient manufacturing plant at Bega, New South Wales. As at 30 June 2015, Bega Cheese had not received any proceeds under this grant and had not entered into any material commitments in relation to the bio-nutrients manufacturing plant. In accordance with the accounting policy for government grants, no amounts were included in the Consolidated Statement of Comprehensive Income for FY2015.

C. SALE OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED (WCB) SHARES

In January 2014, Bega Cheese sold its complete holding of 10,521,910 WCB shares receiving $98,906,000. The cost of the shares sold was $32,851,000 and Bega Cheese incurred transaction costs of $4,030,000. A summary of the impact of the sale of shares is set out below:

	CONSOLIDATED	
	2015 $'000	**2014** $'000
Sale proceeds	-	98,906
Cost of shares	-	(32,851)
Impact on other income (note 5)	-	66,055
Transaction costs (included in administration costs)	-	(3,112)
Impact on EBITDA and EBIT (note 2)	-	62,943
Finance costs (note 6)	-	(918)
Impact on profit before income tax	**-**	**62,025**
Impact on income tax expense (note 7)	-	(18,336)
Impact on profit for the year	**-**	**43,689**
Impact on cash flows for the year	**(18,336)**	**94,043**

All cash flows relating to the sale of the WCB shares were included in the FY2014 accounts except for the tax payable on the transaction, which was paid in FY2015.

D. IMPACT OF CURRENT YEAR EVENTS ON FINANCIAL PERFORMANCE

The impact of current year events on financial performance is also included in the Chief Executive Officer's review of operations and activities and in note 2.

2. SEGMENT INFORMATION

A. DESCRIPTION OF SEGMENTS

The operating segments are based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group has two reporting segments that source, trade and utilise milk in the manufacture of the following products:

i. Bega Cheese – which manufactures natural cheese, processed cheese, powders, butter and packaged cheese products.

ii. Tatura Milk – which manufactures and packages cream cheese, butter, powders and nutritionals.

B. SEGMENT INFORMATION PROVIDED TO THE BOARD OF DIRECTORS

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2015 is as follows:

	Bega Cheese $'000	**Tatura Milk** $'000	**Group Eliminations** $'000	**Group Total** $'000
Period ending 30 June 2015				
Revenue	724,974	432,118	(44,462)	1,112,630
EBITDA	29,597	12,381	-	41,978
Depreciation, amortisation and impairment	(11,994)	(10,220)	-	(22,214)
EBIT	17,603	2,161	-	19,764
Interest revenue	427	184	(297)	314
Interest expense	(2,203)	(1,738)	297	(3,644)
Profit before income tax	**15,827**	**607**	**-**	**16,434**
Income tax expense	(4,516)	490	-	(4,026)
Profit after tax	**11,311**	**1,097**	**-**	**12,408**
Total segment assets	387,208	245,452	(80,241)	552,419
Total segment liabilities	143,454	99,680	(3,381)	239,753
Purchases of property, plant and equipment	7,997	10,732	-	18,729
Impact of current year events on EBITDA (note 1)				
Milk Sustainability and Growth Program	(6,074)	(7,653)	-	(13,727)

2. SEGMENT INFORMATION (CONT.)

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Period ending 30 June 2014				
Revenue	685,830	405,457	(21,895)	1,069,392
EBITDA	91,172	31,334	-	122,506
Depreciation, amortisation and impairment	(13,758)	(9,146)	-	(22,904)
EBIT	77,414	22,188	-	99,602
Interest revenue	413	168	(211)	370
Interest expense	(5,241)	(1,362)	211	(6,392)
Profit before income tax	**72,586**	**20,994**	**-**	**93,580**
Income tax expense	(21,639)	(5,886)	-	(27,525)
Profit after tax	**50,947**	**15,108**	**-**	**66,055**
Total segment assets	392,550	234,781	(78,694)	548,637
Total segment liabilities	146,719	89,364	(1,834)	234,249
Purchases of property, plant and equipment	8,347	19,602	(26)	27,923
Impact of current year events on EBITDA (note 1)				
Sale of WCB shares and related costs	62,943	-	-	62,943
Milk Sustainability and Growth Program	(4,851)	(5,718)	-	(10,569)

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	
	2015 $'000	**2014** $'000
Sales to external customers in Australia		
Bega Cheese	604,464	580,009
Tatura Milk	197,302	164,220
Total sales to external customers in Australia	801,766	744,229
Sales to external customers in other countries		
Bega Cheese	111,081	98,605
Tatura Milk	199,783	226,558
Total sales to external customers in other countries	310,864	325,163
Total sales to external customers	**1,112,630**	**1,069,392**

Revenues of approximately $505,463,000 (2014: $506,614,000) are concentrated in a small number of external customers. These revenues are attributable to the Bega Cheese segment.

Segment sales by category are as follows:

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Period ending 30 June 2015				
Core dairy ingredients	41,504	285,775	(44,462)	282,817
Consumer packaged goods	683,470	-	-	683,470
Nutritionals	-	146,343	-	146,343
Sales by category	**724,974**	**432,118**	**(44,462)**	**1,112,630**
Period Ending 30 June 2014				
Core dairy ingredients	49,192	284,493	(21,895)	311,790
Consumer packaged goods	636,638	-	-	636,638
Nutritionals	-	120,964	-	120,964
Sales by category	**685,830**	**405,457**	**(21,895)**	**1,069,392**

i. EBITDA

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

ii. Segment assets and liabilities

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

3. EARNINGS PER SHARE

	CONSOLIDATED	
	2015 Cents	**2014** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	8.1	43.4
Diluted earnings per share	8.1	43.2
	2015 Number	**2014** Number
Weighted average of number of shares used as the denominator in calculating basic earnings per share	152,549,129	152,075,035
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	-	708,842
Shares used as the denominator in calculating diluted earnings per share	152,549,129	152,783,877
	2015 $'000	**2014** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	12,408	66,055

4. DIVIDENDS TO SHAREHOLDERS

	COMPANY	
	Full year 2015	**Full year 2014**
	$'000	$'000
Recognised amounts:		
2015 Interim dividend of 4.00 cents	6,104	-
2014 Final dividend of 4.50 cents	6,867	-
2014 Interim dividend of 4.00 cents	-	6,090
2013 Final dividend of 4.00 cents	-	6,074
Unrecognised amounts:		
2015 Final dividend of 4.50 cents	6,867	
Value of the dividend franking account	22,838	23,618

The dividends paid in 2015 and 2014 were fully franked. The 2015 final dividend will be fully franked.

The value of the dividend franking account represents the balance of the franking account as at the end of the year, adjusted for franking credits that will arise from payment of the current tax liability.

5. REVENUE AND OTHER INCOME

Revenue from continuing operations consisted of the following items:

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Sales of goods	1,096,570	1,051,671
Services	16,060	17,721
Total revenue	**1,112,630**	**1,069,392**
Other revenue		
Royalties	5,266	5,205
Sundry contract income	835	1,492
Dividends	-	1,101
Rental revenue	418	604
Total other revenue	**6,519**	**8,402**
Other income		
Profit on sale of WCB shares (note 1c)	-	66,055
Interest income	314	370
Other	998	1,482
Total other income	**1,312**	**67,907**

6. EXPENSES

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
(Profit)/loss on disposal of property, plant and equipment	(30)	166
Operating lease minimum lease payments	1,734	1,029
Increase in inventory provisions	1,525	4,987
(Decrease)/increase of bad and doubtful debts	(84)	79
Depreciation of non-current assets	22,330	22,006
Impairment of tangible assets	200	799
(Write-back)/impairment of intangible assets	(316)	99
Employee benefit expense:		
- Defined contribution superannuation expense	11,793	10,384
- Other employee benefits expense	138,230	129,801
Total employee benefit expense	**150,023**	**140,185**
Finance costs:		
- Special purpose debt facility establishment costs (note 1c)	-	918
- Interest on bank loans	3,393	4,804
- Other finance costs	251	670
Total finance costs	**3,644**	**6,392**

7. INCOME TAX

	CONSOLIDATED	
	2015	2014
	$'000	$'000
A. INCOME TAX EXPENSE		
Current tax charge	(4,537)	(28,430)
Deferred tax benefit from the origination and reversal of temporary differences	5	644
Adjustments recognised in the current year in relation to current tax of prior years	506	261
Total income tax expense	**(4,026)**	**(27,525)**

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

	CONSOLIDATED	
	2015	2014
	$'000	$'000
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit from continuing operations before income tax	16,434	93,580
Tax (expense) at the Australian tax rate of 30% (2014-30%)	(4,930)	(28,074)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	-	472
Non-deductible expenses	(212)	(782)
Other assessable income	-	(142)
Other deductible expenses	21	296
	(191)	(156)
Tax incentives	695	444
Adjustments in respect of prior year	506	261
Unrecognised tax losses	(106)	-
Total income tax expense	**(4,026)**	**(27,525)**

	CONSOLIDATED	
	2015	2014
	$'000	$'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	-	2,586
Movement in hedging reserve	318	(1,480)
Total amount recognised through other comprehensive income	**318**	**1,106**

D. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Period ending 30 June 2015				
Deferred tax assets				
Borrowing costs	13	(4)	-	9
Doubtful debts	28	(28)	-	-
Stock provisions	2,154	(434)	-	1,720
Sundry accrued expenses	1,629	(514)	-	1,115
Employee provisions	8,102	824	-	8,926
Share issue costs	505	-	-	505
Fair value of derivatives	-	-	60	60
Total deferred tax assets	12,431	(156)	60	12,335
Deferred tax (liabilities)				
Property, plant and equipment	(1,260)	155	-	(1,105)
Fair value of derivatives	(264)	6	258	-
Total deferred tax (liabilities)	(1,524)	161	258	(1,105)
Total deferred tax	**10,907**	**5**	**318**	**11,230**
Period ending 30 June 2014				
Deferred tax assets				
Borrowing costs	18	(5)	-	13
Doubtful debts	4	24	-	28
Stock provisions	2,051	103	-	2,154
Sundry accrued expenses	1,703	(74)	-	1,629
Employee provisions	7,607	495	-	8,102
Share issue costs	579	(74)	-	505
Total deferred tax assets	11,962	469	-	12,431
Deferred tax (liabilities)				
Fair value investment	(2,586)	-	2,586	-
Property, plant and equipment	(1,461)	201	-	(1,260)
Fair value of derivatives	1,242	(26)	(1,480)	(264)
Total deferred tax (liabilities)	(2,805)	175	1,106	(1,524)
Total deferred tax	**9,157**	**644**	**1,106**	**10,907**

7. INCOME TAX (CONT.)

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000
E. DEFERRED TAX - RECOVERY OF ASSETS AND SETTLEMENT OF LIABILITIES		
Deferred tax assets expected to be recovered within 12 months	10,872	11,298
Deferred tax assets expected to be recovered after more than 12 months	1,463	1,133
Deferred tax liabilities expected to be settled after more than 12 months	(1,105)	(1,524)
Total deferred tax	**11,230**	**10,907**

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000
F. INCOME TAXES PAID		
Income taxes paid is included in the Consolidated Statement of Cash Flows as follows:		
Income tax (paid) included in operating activities	(9,876)	(7,139)
Income tax (paid) included in investing activities	(18,336)	-
Total income taxes (paid)	**(28,212)**	**(7,139)**

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000
Trade receivables	105,218	94,839
Allowance for impairment of receivables	-	(84)
	105,218	94,755
Goods and services tax (GST) receivable	6,633	7,094
Prepayments	2,232	966
Accrued revenue	3,511	1,197
Other debtors	183	188
Advances for vat loans	451	565
Advances to suppliers	1,280	1,895
Total trade and other receivables	**119,508**	**106,660**

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.

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 5.45% (2014: 5.5%). Advances to suppliers are prepayments for milk to assist with short-term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 7.32% (2014: 7.8%).

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Current assets		
Fair value of derivatives	967	2,084
Total derivative financial instruments	**967**	**2,084**

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

10. INVENTORIES

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Raw materials	125,954	117,272
Finished goods	68,935	66,895
Carrying amount of inventories at lower of cost or net realisable value	**194,889**	**184,167**

The write-down of inventories to net realisable value requires critical judgement in assessing future commodity prices and provisions for quality. Details of changes in inventory provisions is included in note 6.

11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Land and buildings		
At cost	99,413	98,290
Accumulated depreciation	(33,531)	(30,237)
Total land and buildings	**65,882**	**68,053**
Plant and equipment		
At cost	378,793	373,902
Accumulated depreciation	(249,938)	(234,365)
Total plant and equipment	**128,855**	**139,537**
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,856)
Total leased assets	**-**	**-**
Construction in progress	**14,969**	**5,977**
Total property, plant and equipment	**209,706**	**213,567**

11. PROPERTY, PLANT AND EQUIPMENT (CONT.)

The movements in property, plant and equipment are:

	Construction in progress	Land and buildings	Plant and equipment	Total
	$'000	$'000	$'000	$'000
Consolidated				
Period ending 30 June 2015				
Balance at the beginning of the period	5,977	68,053	139,537	213,567
Capital expenditure	18,729	-	-	18,729
Disposals	-	-	(60)	(60)
Depreciation	-	(3,104)	(19,226)	(22,330)
Impairment	-	(200)	-	(200)
Transfers	(9,737)	1,133	8,604	-
Balance at the end of the financial period	14,969	65,882	128,855	209,706
Period ending 30 June 2014				
Balance at the beginning of the period	13,816	66,383	128,924	209,123
Capital expenditure	27,923	-	-	27,923
Disposals	(500)	-	(174)	(674)
Depreciation	-	(3,023)	(18,983)	(22,006)
Impairment	(100)	(62)	(637)	(799)
Transfers	(35,162)	4,755	30,407	-
Balance at the end of the financial period	5,977	68,053	139,537	213,567

12. INTANGIBLE ASSETS

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Brand	405	405
Water rights	1,392	1,076
Total intangible assets	**1,797**	**1,481**
Movement in intangible assets:		
Balance at the beginning of the financial period	1,481	1,580
Write-back/(impairment) of water rights	316	(99)
Balance at the end of the financial period	1,797	1,481

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 and are attributable to the Bega Cheese segment. Impairment was tested by reference to third party market valuation based on recent transactions and related data.

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Trade payables	118,084	139,732
Deferred income	2,914	1,477
Accrued charges and sundry creditors	18,083	22,943
Total trade and other payables	**139,081**	**164,152**

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

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

14. BORROWINGS

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Current - at amortised cost		
Secured term loans	11,474	588
Total current borrowings	11,474	588
Non-current - at amortised cost		
Secured term loans	57,500	20,000
Total non-current borrowings	57,500	20,000
Total borrowings	**68,974**	**20,588**

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Current liabilities		
Fair value of derivatives	993	232
Total derivative financial instruments	**993**	**232**

For further details on derivatives, see note 21.

16. PROVISIONS

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Current liabilities		
Employee benefits	26,553	24,773
Total current provisions	26,553	24,773
Non-current liabilities		
Employee benefits	2,966	2,079
Total non-current provisions	2,966	2,079
Total provisions	**29,519**	**26,852**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The amount of the provision presented as current of $26,553,000 (2014: $24,773,000) is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months:

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Current leave obligations expected to be settled after 12 months	4,939	8,008

17. SHARE CAPITAL

A. SHARE CAPITAL

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Share capital - ordinary shares fully paid	**103,942**	**103,642**

B. MOVEMENT IN SHARE CAPITAL VALUE AND NUMBER OF SHARES

During November and December 2013, Bega Cheese issued 379,752 shares at a value of $1,740,000 net of costs as partial consideration for the purchase of additional shares in WCB. For further details of the sale of WCB shares, see note 1c.

On 25 August 2014, 357,143 shares were issued to the Chief Executive Officer of Bega Cheese under the Bega Cheese Limited Long Term Incentive Plan. Further details of the shares are detailed in the Remuneration Report and note 31. These movements are set out in the following table:

	Ordinary Shares	Ordinary Shares
	Number '000	$'000
Ordinary shares on issue at 1 July 2013	151,866	101,902
Shares issued as purchase consideration for other financial assets, net of costs	380	1,740
Ordinary shares on issue at 30 June 2014	152,246	103,642
Ordinary shares on issue at 1 July 2014	152,246	103,642
Shares issued under Long Term Incentive Plan	357	300
Ordinary shares on issue at 30 June 2015	152,603	103,942

18. RESERVES

A. RESERVES

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Reserves		
Share-based payment reserve	94	811
Capital profits reserve	33,959	33,959
Hedging reserve	(555)	187
Transactions with non-controlling interests reserve	(12,567)	(12,567)
Total reserves	**20,931**	**22,390**

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. For further details, see note 31 and the Remuneration Report.

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

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

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

19. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

For the purpose of the cash flow statement, cash includes cash on hand and in banks.

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	10,284	28,630
Balance per statement of cash flow	**10,284**	**28,630**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	12,408	66,055
Adjustments for non-cash items:		
Depreciation of non-current assets	22,330	22,006
(Profit)/loss on sale of property, plant and equipment	(30)	166
Impairment of tangible assets	200	799
(Write-back)/impairment of intangible assets	(316)	99
Non-cash employee benefit (write-back)/expense - share-based payments	(417)	293
Profit on sale of investments held for resale net of payments related to corporate activity	-	(61,704)
Fair value adjustment to derivatives	818	(4,111)
Interest income received and receivable	(301)	(370)
Dividend receivable	-	(1,101)
Share of net profit of joint venture	(207)	(946)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other debtors and GST recoverable	(11,580)	(3,506)
Inventories	(10,722)	(21,140)
Prepayments	(1,266)	322
Deferred tax asset	(5)	(642)
Increase/(decrease) in liabilities:		
Trade and other payables	(25,071)	21,463
Provision for income taxes payable excluding taxation on investments	(5,854)	21,030
Changes in provisions	2,668	1,761
Net cash flow from operating activities	**(17,345)**	**40,474**
C. NON-CASH INVESTING ACTIVITY		
Dividend received from WCB re-invested to purchase additional WCB shares	-	1,101
Issue of shares in Bega Cheese as partial consideration for purchase of WCB shares	-	1,740

RISK

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management 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 to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not for trading or other speculative purposes. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Financial management is carried out by the treasury function within the finance department under policies approved by the Board of Directors and overseen by the Audit & Risk Committee. 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 that has overall responsibility for risk management. The Board also approves policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments, and investment of excess liquidity.

A. MARKET RISK

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

Foreign exchange risk

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

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

	CONSOLIDATED					
	USD	**JPY**	**EUR**	**USD**	**JPY**	**EUR**
	2015	**2015**	**2015**	**2014**	**2014**	**2014**
	'000	'000	'000	'000	'000	'000
Trade receivables	**25,911**	**-**	**-**	**21,639**	**-**	**-**
Trade payables	**-**	**-**	**169**	**-**	**-**	**1,688**
Forward exchange contracts						
Buy foreign currency (fair value hedges)	9,376	6	27,186	10,935	-	2,067
Sell foreign currency (cashflow hedges)	42,871	2,833	-	51,540	2,458	-
Sell foreign currency (fair value hedges)	20,259	-	-	26,431	-	-

21. FINANCIAL RISK MANAGEMENT (CONT.)

A. MARKET RISK (CONT.)

Group sensitivity

This is based on the financial instruments held on 30 June 2015, 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 2014 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The Group sensitivity is detailed in the following table:

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Equity		
AUD$ strengthens 10% - increase/(decrease)	(1,973)	(3,446)
AUD$ weakens 10% - (decrease)/increase	1,157	4,212

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Historically, the Group has used fixed rate interest swaps to manage interest rate risk. Due to the relatively low level of borrowings and changed facility agreements, the use of interest rate swaps is currently under review by the Group. All borrowings were denominated in Australian dollars during 2015 and 2014.

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

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Fixed rate instruments		
Assets		
Vat and supplier loans	1,731	2,460
Liabilities		
Bank overdrafts and loans	(474)	(588)
Variable rate instruments		
Assets		
Cash and cash equivalents	10,284	28,630
Liabilities		
Bank overdrafts and loans	(68,500)	(20,000)
Net exposure to interest rate risk on variable rate instruments	**(58,216)**	**8,630**

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

Group sensitivity

At 30 June 2015, 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 $408,000 higher/(lower) (2014: $(60,000) (lower)/higher for the Group's net profit.

Price risk

The Group was exposed to equity securities price risk during FY2014. This arose from the investment held by the Group in WCB shares. As the Group no longer holds equity securities due to the sale of WCB shares in FY2014, there is no current price risk.

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 that can be called upon if the counterparty is in default under the terms of the agreement. In addition, the Company obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Cash and cash equivalents	10,284	28,630
Trade receivables	105,218	94,755
Accrued revenue	3,511	1,197
Other receivables	6,816	7,282
Vat loans to farmers	451	565
Advances to farmers	1,280	1,895
Fair value derivatives	967	2,084
Total credit risk exposure	**128,527**	**136,408**

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

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

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Not past due	92,232	83,429
Past due 0-30 days	10,997	8,626
Past due over 30 days	1,989	2,784
Trade receivables at 30 June	**105,218**	**94,839**

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

21. FINANCIAL RISK MANAGEMENT (CONT.)

C. LIQUIDITY RISK

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

Financing arrangements

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

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Undrawn facilities expiring within one year	71,526	50,000
Undrawn facilities expiring beyond one year	13,500	27,412
Drawn facilities	68,974	20,588
Total facilities	**154,000**	**98,000**
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	70,000	39,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	1,000	1,000
Inventory Facility	75,000	50,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	1,500	1,500
Total facilities	**154,000**	**98,000**

The Group financing arrangements include a syndicated facility structure funded by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Australia Branch) and Westpac Banking Corporation. During the year, the Group re-instated facility limits to include a 3.5 year Revolving Cash Advance Facility of $70 million due to expire on 31 January 2017 and 5 year Revolving Cash Advance Facility of $1 million, which is due to expire on 31 July 2018. The Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese and Tatura Milk.

In addition to the Syndicated Facility, Bega Cheese and Tatura Milk continue to operate three separate banking facilities. The Inventory Facility is due to expire on 6 January 2016. The Overdraft Facility and the Vat Financing Facility are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 23. The Overdraft Facility is due to expire on 1 July 2016, whilst the Vat Financing Facility is a revolving facility.

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

a) the interest cover ratio must be equal or greater than 3.5 times

b) the leverage ratio must not be greater than 5 times and

c) shareholder funds must be equal or greater than $200,000,000

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

Maturities of financial liabilities

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

Consolidated	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2015						
Non derivatives						
Secured bank loans	(2,699)	(69,721)	-	-	(72,420)	(68,974)
Trade and other payables	(139,081)	-	-	-	(139,081)	(139,081)
Derivatives						
Inflows	102,531	-	-	-	102,531	103,063
Outflows	(103,889)	-	-	-	(103,889)	(103,089)
Total financial liabilities	**(143,138)**	**(69,721)**	**-**	**-**	**(212,859)**	**(208,081)**

	0-12 months $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2014						
Non derivatives						
Secured bank loans	(1,417)	(845)	(20,513)	-	(22,775)	(20,588)
Trade and other payables	(164,152)	-	-	-	(164,152)	(164,152)
Derivatives						
Inflows	90,238	-	-	-	90,238	93,452
Outflows	(87,788)	-	-	-	(87,788)	(91,600)
Total financial liabilities	**(163,119)**	**(845)**	**(20,513)**	**-**	**(184,477)**	**(182,888)**

21. FINANCIAL RISK MANAGEMENT (CONT.)

D. FAIR VALUE ESTIMATION

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

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

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 Financial Instruments: disclosures requires disclosure of fair value measurements by level 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 date (unobservable inputs) (level 3).

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

Consolidated	Level 2 $'000	Total $'000
Period Ending 30 June 2015		
Assets		
Derivatives used for hedging	967	967
Total assets	**967**	**967**
Liabilities		
Derivatives used for hedging	(993)	(993)
Total liabilities	**(993)**	**(993)**
Period Ending 30 June 2014		
Assets		
Derivatives used for hedging	2,084	2,084
Total assets	**2,084**	**2,084**
Liabilities		
Derivatives used for hedging	(232)	(232)
Total liabilities	**(232)**	**(232)**

The Group did not hold level 1 or level 3 assets or liabilities at reporting period ends.

22. CAPITAL RISK MANAGEMENT

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

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

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Net debt: borrowings net of cash/(net cash)	58,690	(8,042)
Total equity	312,666	314,388
Total capital	**371,356**	**306,346**
Net debt to equity ratio	**16%**	**(3)%**

GROUP STRUCTURE

23. PARENT ENTITY FINANCIAL INFORMATION

A. SUMMARY FINANCIAL INFORMATION

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

	BEGA CHEESE	
	2015	**2014**
	$'000	$'000
Current assets	192,643	194,174
Total assets	387,208	392,550
Current liabilities	(124,339)	(145,389)
Total liabilities	(143,454)	(146,719)
Net assets	**243,754**	**245,831**
Shareholder's equity		
` Issued capital of parent entity	104,512	104,212
Reserves		
Share based payment reserve	94	811
Capital profits reserve	32,565	32,565
Retained earnings	106,583	108,243
Total equity	**243,754**	**245,831**
Profit after tax for the year	11,311	50,947
Total comprehensive income	11,311	44,008

In arriving at the consolidated contributed equity of the Group, issue costs of $570,000 (2014: $570,000) are deducted from the issued capital of the parent entity.

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 25.

23. PARENT ENTITY FINANCIAL INFORMATION (CONT.)

C. CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity did not have any contingent liabilities as at 30 June 2015 or 30 June 2014 except as disclosed in note 26.

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

As at 30 June 2015, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $3,242,000 (2014: $315,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. SUBSIDIARY AND JOINT VENTURE

	Country of Incorporation	Class of Shares	2015 Holding %	2014 Holding %
Tatura Milk Industries Limited	Australia	Ordinary	100	100
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

In December 2011, Bega Cheese secured 100% ownership of Tatura Milk. Prior to this, Bega Cheese held approximately 70% of the total Tatura Milk shares issued.

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	
	2015	2014
	$'000	$'000
Share of net profit of joint venture	207	946
Investments accounted for using the equity method	1,097	1,141

25. 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 Australian Securities and Investments Commission. 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".

UNRECOGNISED ITEMS

26. 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 during the year or since 30 June 2015 which result in the need to disclose or raise contingent liabilities of the Group as at 30 June 2015.

27. COMMITMENTS

A. CAPITAL COMMITMENTS

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	7,597	1,312

B. LEASE COMMITMENTS - GROUP AS LESSEE

Non-cancellable operating leases consist of the following types:

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Equipment	1,357	2,095
Motor vehicles	164	99
Land and buildings	7,127	1,058
Total lease commitments	**8,648**	**3,252**

The equipment leases have terms of up to 5 years and no option to extend. The motor vehicle leases typically run for a period of one to five years with an option to renew the lease after this date. The leases for land and buildings are due to expire between April 2018 and October 2021 with options to extend.

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

	CONSOLIDATED	
	2015	**2014**
	$'000	$'000
Within one year	2,036	1,021
Between one and five years	5,390	2,231
Later than five years	1,222	-
Total lease commitments	**8,648**	**3,252**

28. SUBSEQUENT EVENT

On 27 August 2015, the Directors declared a final fully franked dividend of 4.50 cents per share, which represents a distribution of $6,867,000.

OTHER INFORMATION

29. 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. Those relating to KMP are detailed in the Remuneration Report.

B. RELATED PARTY TRANSACTIONS WITH GROUP ENTITIES

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

	CONSOLIDATED	
	2015	2014
	$	$
Sales made to CCFA	6,708,412	9,052,860
Rent paid by CCFA to Bega Cheese	219,168	212,784
Amounts payable by CCFA to Bega Cheese at period end	430,456	1,833,139

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

C. KEY MANAGEMENT PERSONNEL REMUNERATION

	CONSOLIDATED	
	2015	2014
	$	$
Short-term employee benefits	3,563,229	4,291,777
Post-employment benefits	282,083	216,443
Other long-term employee benefits	150,288	77,756
Share-based payments	(372,630)	292,634
Total employee benefits	**3,622,970**	**4,878,610**

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

30. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2015	2014
	$	$
Audit Services		
PwC Australia - Audit and review of financial statements	380,000	392,500
Non-PwC Australia firm - Audit and review of financial statements of the joint venture	10,245	9,375
Non-audit Services		
PwC Australia - Other services	50,808	241,343
Non-PwC Australia firm - Other services	116,530	141,264

It is the Group's policy to engage PwC Australia on assignments additional to the statutory audit duties where their experiences with the Group is important. During the current and prior years PwC provided non-audit services relating to corporate activity, share schemes and tax advice.

31. SHARE-BASED PAYMENTS

A. EXPENSES ARISING FROM BEGA CHEESE LIMITED LONG TERM INCENTIVE PLAN

The Bega Cheese Limited Long Term Incentive Plans (Plans) were established in 2012 and are designed to provide long-term incentives for the CEO to deliver shareholder returns. Under the Plans, the CEO is granted share rights which only vest if certain performances standards are met. There are two Plans:

- The 2011-14 Plan for which the outcome was determined in August 2014 and the expense fully recognised in the FY2012 to FY2014 accounts. The outcome awarded 357,143 performance rights which were issued as shares on 25 August 2014.
- The 2012-15 Plan for which the outcome was determined in August 2015 and $372,630 credited to comprehensive income in FY2015. No performance rights were issued.

No further expense is due to be incurred under either Plan and no further shares issued. Further details of the Plans are set out in the Remuneration Report. The expense arising from share-based transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	2015	2014
	$'000	$'000
Entitlements due under employee share schemes		
Expense in relation to Long Term Incentive Plan	(373)	293
Other share scheme movement	(44)	-
Total employee share scheme expense	**(417)**	**293**

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

32. RECLASSIFICATION OF OTHER ITEMS

The classification of certain items was reviewed due to changing arrangements with customers, resulting in a number of reclassifications in order to present information in a more relevant way.

There was no impact on profit for the year or net assets from these reclassifications. The presentation has been corrected by restating each of the affected financial statement line items for the prior period as summarised below:

	CONSOLIDATED			
	30 June 2014 As reported $'000	Restatement Bega Cheese $'000	Restatement Tatura Milk $'000	30 June 2014 Restated $'000
Cost of sales	(951,117)	7,566	1,096	(942,455)
Distribution expense	(42,455)	(272)	(2,653)	(45,380)
Marketing expense	(6,129)	(873)	(2,059)	(9,061)
Administration expense	(43,679)	(6,421)	3,616	(46,484)
Profit before income tax	93,580	-	-	93,580

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bega Cheese and its subsidiaries. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 27 August 2015. The Directors have the power to amend and re-issue the financial statements.

A. BASIS OF PREPARATION

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

Compliance with IFRS

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

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in its annual reporting period commencing after 1 July 2014.

- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- Interpretation 21 *Accounting for Levies*
- AASB 2014-1 *Amendments to Australian Accounting Standards.*

The adoption of these standards did not have any impact on the current period or any prior period and is 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 2014.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the financial statements are disclosed in note 20.

B. PRINCIPLES OF CONSOLIDATION

Joint venture

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

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2015 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 entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

C. SEGMENT REPORTING

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

D. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is Bega Cheese and its subsidiary'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.

Services

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

Royalties and rental revenue

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

Interest income

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

Dividends

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. GOVERNMENT GRANTS

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

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

Government grants relating to the purchase of property, plant and equipment are included in 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 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

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

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

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

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

H. LEASES

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 27). 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.

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.

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 of disposal 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 that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Nonfinancial 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 and deposits held at call with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

L. TRADE RECEIVABLES

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

Collectability of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (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 expense'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expense in profit or loss.

M. INVENTORIES

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

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

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

N. 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 that are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 8) in the balance sheet.

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

O. DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

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

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 "revenue". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged items that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or 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 any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

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

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

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

Q. INTANGIBLE ASSETS

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 12.

Water rights

Water Rights are valued at least annually at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 12.

R. TRADE AND OTHER PAYABLES

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

S. BORROWINGS

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

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

Borrowing costs are expensed as incurred as there are no significant qualifying assets.

T. PROVISIONS

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

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

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

33. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

U. EMPLOYEE BENEFITS

Short term obligations

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

Other long term employee benefit obligations

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

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

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

Retirement benefit obligations

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

Share-based payments

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

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

Profit-sharing and bonus plans

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

V. CONTRIBUTED EQUITY

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

W. DIVIDENDS

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

X. EARNINGS PER SHARE

i. Basic earnings per share

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

ii. Diluted earnings per share

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

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

Y. RESEARCH AND DEVELOPMENT COSTS

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

Z. GOODS AND SERVICES TAX (GST)

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

AA. ROUNDING OF AMOUNTS

The Company is of a kind referred to in 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.

BB. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. The Group's assessment of the impact of these new standards and interpretations as applicable to the Group is set out below.

i. AASB 9 Financial Instruments (effective for annual reporting periods commencing on or after 1 January 2018)
   AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.
   The standard is not applicable until 1 January 2018 but is available for early adoption. The Group is currently assessing the impact of the changes.

ii. AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods commencing on or after 1 January 2017)
   The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Group is currently assessing the impact of the changes.

iii. AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101 (effective for annual reporting periods commencing on or after 1 January 2016) In January 2015, the AASB made various amendments to AASB 101 as part of the Disclosure Initiative which explores how financial statement disclosures can be improved. The amendments clarify guidance in AASB 101 on materiality and aggregation, presentation of subtotals, structure of financial statements and disclosure of accounting policies. The Group is currently assessing the impact of the changes.

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

CC. PARENT ENTITY FINANCIAL INFORMATION

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

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

ii. Dividend income
   Dividends receivable from subsidiaries are included in Bega Cheese's income statement. In the Group consolidated financial statements, these are eliminated, along with other intercompany transactions.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 38 to 75 are in accordance with the *Corporations Act 2001,* including:

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

   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its 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, and

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

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

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

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

B.A. Irvin

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

27 August 2015

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 consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Bega Cheese Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 33, 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. Those 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 consolidated 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.

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

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

Auditor's opinion
In our opinion:

(a) the financial report of Bega Cheese Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 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*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 33.

Report on the Remuneration Report
We have audited the remuneration report included in pages 20 to 28 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report
This auditor's report relates to the financial report and remuneration report of Bega Cheese Limited (the company) for the year ended 30 June 2015 included on Bega Cheese Limited's web site. The company's directors are responsible for the integrity of Bega Cheese Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

SJ Bourke
Partner

Sydney
27 August 2015

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2015:

DISTRIBUTION OF EQUITY SECURITIES

Holding	Number
1 – 1,000	2,780
1,001 – 5,000	2,047
5,001 – 10,000	445
10,001 – 100,000	455
100,001 and over	175
	5,902

There were 299 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
New Zealand Milk (Australasia) Pty Ltd	13,773,759	9.0%
Perpetual Limited	9,958,386	6.5%
Karara Capital Limited	5,887,948	3.9%
RE Platts*	3,480,014	2.3%
BT Investment Management Limited	3,218,908	2.1%
Aljo Pastoral Pty Ltd*	3,004,984	2.0%
Jerang Pty Limited*	2,664,012	1.7%
Australian Foundation Investment Company Limited	2,202,800	1.4%
JL & KD Kimber	2,200,066	1.4%
Redpoint Investment Management Pty Ltd	1,996,902	1.3%
Vanguard Investments Australia Limited	1,854,712	1.2%
R & R Apps Pty Ltd	1,823,972	1.2%
PC Shearer	1,781,408	1.2%
S & M Roberts*	1,555,000	1.1%
NG & NG Pearce	1,536,888	1.1%
PJ, CL & AL Collett	1,521,116	1.0%
AMP Capital Investors	1,486,510	1.0%
M & C Moffitt	1,426,064	0.9%
M & S Guthrey	1,420,156	0.9%
G & NE Lucas	1,389,996	0.9%
	64,183,601	**42.1%**

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

SUBSTANTIAL HOLDERS

No shareholder holds more than 10% of the issued capital of the Company. Under the Company's constitution a shareholder limit of 10% is in place until 19 August 2016.

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 three year restriction placed on ordinary shares issued under the Bega Cheese Limited Tax Exempt plan matured during the year and accordingly no shares on issue are subject to any restriction.

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 SECRETARIES

Directors
Barry Irvin
Executive Chairman

Richard Cross
Director

Peter Margin
Independent Director

Raelene Murphy
Independent Director

Jeff Odgers
Director

Richard Parbery
Director

Richard Platts
Director

Max Roberts
Director

Company Secretaries
Brett Kelly
Colin Griffin

EXECUTIVE TEAM

Aidan Coleman
Chief Executive Officer

Garth Buttimore
General Manager Operations

Colin Griffin
Chief Financial Officer

Paul van Heerwaarden
General Manager
Sales & Marketing

David McKinnon
General Manager
Human Resources

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
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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 2015 and is referred to as FY2015.

NOTES

NOTES

OUR SITES

TATURA
236 Hogan Street
Tatura VIC 3616 Australia

DERRIMUT
11 Benn Court,
Derrimut VIC 3030 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

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

COBURG
10-16 Allenby Street
Coburg VIC 3058 Australia

PORT MELBOURNE
664 Lorimer Street
Port Melbourne VIC 3207 Australia

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

Bega