ASX ANNOUNCEMENT

Bega Cheese Limited

Release of Preliminary Results for the Year Ended 30 June 2017

Attached is Appendix 4E for Bega Cheese Limited for the year ended 30 June 2017.

B. G. Kelly

Brett Kelly
Company Secretary

23 August 2017

For further information please contact

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BEGA CHEESE LIMITED

4E PRELIMINARY FINAL REPORT

30 JUNE 2017

LODGEMENT DATE

23 AUGUST 2017

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 2017 and any public announcements made by Bega Cheese Limited ("Bega Cheese" or "Group") during the year ended 30 June 2017 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 2017 with the previous corresponding year to 30 June 2016. 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 2017, Bega Cheese Group delivered a profit after tax of $138.7 million.

	2017	2016	Change	Change	Up/Down
Consolidated	$'000	$'000	$'000	%	
Revenue from ordinary activities	1,226,663	1,195,967	30,696	3	Up
EBITDA	228,850	65,405	163,445	250	Up
Profit after tax	138,748	28,779	109,969	382	Up
Profit after tax attributable to shareholders	138,748	28,779	109,969	382	Up
	cents	cents	cents		
Net tangible assets per share	313.4	209.7	103.8	49	Up

	Cents per Security	Franked cents per Security @ 30 % tax
Current Period		
2017 Final dividend - payable	5.00	5.00
2017 Interim dividend - paid	5.00	5.00
Previous Period		
2016 Final dividend - payable	5.00	5.00

	Record Date
Record date for determining entitlements to Dividends	
2017 Final dividend	30 August 2017
Date of payment of dividends	
2017 Final dividend	13 September 2017

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

3. EXPLANATION OF RESULTS

Bega Cheese Group delivered a number of positive outcomes for its shareholders in FY2017, with the key highlights as follows:

- record top line revenue of $1,226.7 million, representing growth of 3% despite global dairy commodity prices remaining under pressure and the impact of infant nutritional challenges
- improved underlying operating performance with normalised EBITDA growing by 7% to $70.6 million and normalised profit after tax growing by 4% to $30.3 million
- delivered a record statutory performance with reported EBITDA growing by 250% to $228.9 million and reported profit after tax growing by 382% to $138.7 million
- completed the sale of infant nutritional assets to and formation of a long term alliance with Mead Johnson Nutritional on 24 April 2017, which generated a profit after tax of $124.5 million
- announced the purchase of the Mondelez Grocery Business for approx. $460.0 million, which completed on 4 July 2017
- invested for the future, with capital expenditure of $25.3 million on manufacturing capability, capacity and efficiencies and $14.6 million on information systems and process improvements
- maintained balance sheet strength by raising additional capital of $120.8 million (net of costs and tax) through an Institutional Placement on 26 June 2017 and commenced a Share Purchase Plan which raised additional capital of $49.9 million (net of costs and tax) subsequent to the end of the financial year
- continued to honour its representations to farmers and opened with a strong milk price in FY2017 in the context of the global market, which exceeded that paid by the largest milk collection groups
- recognised the importance of shareholder returns by declaring a final dividend of 5.0 cents per share, taking the total dividends paid and declared in relation to FY2017 to 10.0 cents per share, being increase of 0.5 cents per share on FY2016.

Further details of the FY2017 financial position, performance and cash flows are set out in the 2017 Annual Report, which is provided together with this 4E Preliminary Final Report.

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 2017

CONTENTS

KEY HIGHLIGHTS

	2017	2016
REVENUE ($'000)	1,226,663	1,195,967
PRODUCTION VOLUME (TONNES)	236,928	238,156
EBITDA ($'000)	70,620 NORMALISED	66,009 NORMALISED
	228,850 STATUTORY	65,405 STATUTORY
PROFIT AFTER TAX ($'000)	30,331 NORMALISED	29,202 NORMALISED
	138,748 STATUTORY	28,779 STATUTORY
BASIC EARNINGS PER SHARE (CENTS)	19.9 NORMALISED	19.1 NORMALISED
	90.9 STATUTORY	18.9 STATUTORY
TOTAL DIVIDEND PER SHARE (CENTS)	10.0	9.5

Normalised results exclude the impact of significant events occurring during the year.

EXECUTIVE CHAIRMAN'S REVIEW

Values, strategy and the capacity to adapt in a changing world are the measures that the Bega Cheese Group seek to be judged by and were particularly evident in all that we achieved in FY2017.

In an industry that is always competitive, both in Australian and international markets it is vital to be able to adjust to change, not compromise your values and recognise the expectations of all stakeholders.

Our focus is always on earning the trust and confidence of all those associated with the Bega Cheese Group. Whether it is customers, suppliers, shareholders, staff or the communities we operate in, all have expectations we must seek to live up to.

In what was a year of significant corporate activity it was important that the business maintained its focus and ensured that the core operations and platforms performed well in what was a highly competitive and challenging industry environment. It was very pleasing to announce Paul van Heerwaarden as the new Chief Executive Officer (CEO) of the Bega Cheese Group in November 2016 and have him commence in the role in February 2017. Paul has been a senior executive with the Group for seven years in various leadership roles across strategy, business development, sales, customer service and finance. Paul clearly has the experience and knowledge to ensure the business continues to grow and prosper as it meets challenges in global commodity markets, volatility in nutritionals and change in our dairy foods business.

It is well documented that major dairy companies significantly reduced prices nearing the end of FY2016 causing significant upheaval to many dairy farmers and creating turmoil in the industry. This reduction in pricing, late in the year, was followed by low opening farm gate milk prices. I am pleased to report that the Bega Cheese Group did not reduce its price to farmers in the FY2016 year and opened FY2017 with one of the leading prices in the industry.

The turmoil associated with farm gate milk price was only just beginning to calm when the infant formula industry was challenged with change and uncertainty. Our partnership with Blackmores through our dairy nutritional products was not as successful as we had hoped and the orders that we initially received did not translate into sales resulting in the Group taking inventory losses of $8.1 million.

The majority of the above amount was announced at the FY2016 Annual General Meeting along with the additional commentary that we were observing increasing head winds in the infant and toddler segments of the market. Soon after that commentary, Bellamy's, one of our major infant formula customers, disclosed market challenges were affecting both its sales and profitability.

It was important for the Bega Cheese Group to remain focussed on our strategy and true to our values of supporting suppliers and customers while remaining alert to changes and potential solutions. History will show that while it has been a tough year for our dairy farmer suppliers they have remained loyal and we have welcomed a number of new suppliers. In FY2018 we have had strong enquiries from many dairy farmers wishing to supply the company.

The upheaval associated with our infant nutritional business is in part due to the change of regulations in China. The regulatory change and opportunity to bring more certainty to our business saw the Group open discussion with Mead Johnson, a major customer since 2009, regarding how we might deepen and extend our relationship while better positioning each company to build on their individual strengths in the supply chain. The outcome of these discussions was announced on 27 February 2017 with the Bega Cheese Group, through our wholly owned subsidiary Tatura Milk Industries, agreeing to sell one of our infant formula dryers at Tatura and our nutritional canning facility at Derrimut to Mead Johnson for $200 million. The sale included operational and access agreements at both facilities for a period of 10 years.

The secure income stream from these agreements manages risk, realises capital and strengthens the Nutritionals platform while ensuring we are still in a position to grow this important part of our business.

The capacity to be agile, while being clear on our strategy and values, has delivered in FY2017. The core business has remained strong in difficult times allowing the Group to build even more value through acquisition. There is no question that one of the most significant acquisitions in the history of the Bega Cheese Group is the purchase of Mondelēz International's Australia and New Zealand grocery and cheese business (MDLZ Grocery Business), which includes the iconic Vegemite brand and a range of other products such as peanut butter, salad dressings, cheese and sauces.

IT WAS IMPORTANT FOR THE BEGA CHEESE GROUP TO REMAIN FOCUSSED ON OUR STRATEGY AND TRUE TO OUR VALUES OF SUPPORTING SUPPLIERS AND CUSTOMERS WHILE REMAINING ALERT TO CHANGES AND POTENTIAL SOLUTIONS

The purchase of the MDLZ Grocery Business was the next step for the Bega Cheese Group in creating The Great Australian Food Company. The combination of the two businesses builds on our strengths, assists in managing volatility, expands the channels and markets for our products and positions us well to leverage and grow our brands portfolio.

The close of the acquisition was scheduled for 30 June 2017 but was slightly delayed due to a cyber-attack on Mondelēz's global information technology system. The Bega Cheese Group took ownership of the business on 4 July 2017. The delay left the Group balance sheet in a very strong position for FY2017 with the Mead Johnson transaction and a capital raising significantly strengthening our balance sheet while the $456 million purchase price was not brought to account until the FY2018 year.

The work done by both the existing Bega Cheese Group staff and our new staff from Mondelēz to overcome the information technology issues and ensure the transition of ownership was as seamless as possible was wonderful evidence of the qualities, culture and pride that the Bega Cheese Group always identified as being common in the two organisations. As we begin the next stage of the Group's development, the values, respect for heritage and wish to meet the expectations of all stakeholders will no doubt be further enhanced by the character, skills and experience of those staff we have welcomed to the Group as part of this acquisition.

A busy corporate year was concluded with a very successful capital raising with shareholders being extraordinarily supportive of our strategy and investing strongly through an Institutional Placement, completed in June 2017, and Share Purchase Plan (SPP), completed in August 2017. The company successfully raised $122.5 million under the Institutional Placement prior to 30 June 2017 and $50.2 million under the SPP after 30 June 2017 to strengthen our balance sheet, partly fund the Bega Foods acquisition and, as is always the case, be alert for the next corporate opportunity.

Paul van Heerwaarden will provide detailed commentary on the business performance. In overview, I would observe that this year's statutory results were significantly strengthened by the corporate activity in FY2017. I am pleased to report a revenue increase of 3% to $1.2 billion. The statutory results saw EBITDA growth of 250% to $228.9 million and profit after tax (PAT) of $138.7 million, an increase of 382%.

Given the significant corporate activity we believe it is more appropriate to consider the Group performance on a normalised basis. The normalised EBITDA of $70.6 million was 7% ahead of the prior year and normalised PAT of $30.3 million was 4% ahead of the prior year. The normalised financial performance supported our full year dividend of 10.0 cents per share.

FY2017 will be recognised as an historic year for the Bega Cheese Group. Important corporate transactions, strong support from our dairy farmer suppliers and shareholders and the delivery of a stable underlying financial performance in very challenging industry circumstances is something all associated with the Group can be very proud of.

I began this report by commenting on the importance of values and strategy. I am pleased that these long-term and key parts of our business have been demonstrably part of our success this year. Success of course extends beyond financial performance. Our long term support of organisations and charities in our local communities - was again on display this year with support focussed on making a difference to people who are in need. We were pleased to be major supporters of programs focussed on mental health, indigenous youth, carers accommodation at Bega South East Regional Hospital and youth development funds.

Achievement is not possible without a strong team behind you. I would like to recognise the efforts of our retiring CEO Aidan Coleman for his important contribution to this year's results and ensuring his transition to Paul van Heerwaarden was seamless. Aidan continues to provide advice and support to the business. Paul van Heerwaarden has ensured that the business has remained focussed and that we have successfully executed two significant corporate transactions. I thank Paul and his team for their significant effort and "can do" approach to all that challenged us this year.

On a personal note I would like to thank the Board for their important contribution in FY2017. Their significant experience and knowledge once again added great value throughout the year. I would also like to thank Aidan, Paul, the Board, our shareholders, customers and suppliers for their ongoing support.

B.A. Irvin

Barry Irvin AM
Executive Chairman
23 August 2017

OUR TRANSFORMATION TO THE GREAT AUSTRALIAN FOOD COMPANY

Bega Cheese was established in 1899 as a collective of rural dairy farmers who were keen to make a difference to their local industry and community in which they operated. From those humble beginnings the Group has continually refined its business model to be relevant and drive success for over 100 years. The ability of the Group to remain connected with its heritage and culture has been a cornerstone of the Bega Cheese Group's success as we have grown well beyond the lush green pastures of the Bega Valley.

Throughout history, the Bega Cheese Group has aspired to be different. Strong support of the dairy farming families that supply us milk, quality products and service, personal engagement with our customers and awareness of the importance of the Bega brand and corporate reputation all drive improved returns for stakeholders.

Applying the above differentiation principles, particularly over the last 20 years, the Group has made a number of strategic decisions that have accelerated its progression from a single-region rural dairy co-operative into a leading Australian dairy and foods business generating over $1.2 billion in sales with ever-expanding global reach, where export sales comprise in excess of 25% of total revenue.

Our vision is to become The Great Australian Food Company. This vision and the Group's values are guiding the strategic choices we are making for the future. Our ambitions for growth are developed with a view to stability and sustainability for the long-term.

Expanding into non-dairy product food categories is not seen as a replacement of our dairy interests but rather complementary to our core activities, creating a stronger business as a whole. New food categories will help balance out the commodity ingredients cycle of our dairy business. This expansion also enables us to leverage our core competencies in supply chain management, food manufacture, quality and brand management and customer relations, as well as providing new opportunities that diversify the overall returns of the Group.

We are building from a core dairy business that is stable, healthy and well diversified across geography, product categories and customers. Our dairy nutritionals business is stable, we have a growing, high value dairy ingredients business and we have well developed foodservice and retail channels, both internationally and in Australia. We have provided consistent returns throughout the recent dairy industry volatility and the strong growth in our milk supply evidences we are a company of choice for dairy farmers in the regions in which we operate.

The acquisition of the MDLZ Grocery Business, now renamed Bega Foods, is a major change point for the Bega Cheese Group. This acquisition will increase the pace of transformation of the Group and sets us on the path of leadership in multiple food categories. Specifically, it will achieve the following in support of our vision.

DIVERSIFIES THE BEGA CHEESE GROUP INTO NEW CATEGORIES FROM A POSITION OF MARKETPLACE STRENGTH

The new Bega Foods business has strong, well known brands and products. It has leadership in the $550m domestic spreads category and 66% of its current sales revenue is derived from products which are number one by market share in their respective categories.

Vegemite is clearly the dominant brand in yeast spreads, with an 89% share. Successful management of this iconic brand over multiple generations sees Vegemite in over 90% of Australian pantries.

Bega Foods also leads the peanut butter segment and will retain the key product attributes such as packaging, recipes and manufacturing expertise that have been responsible for building strong consumer appeal.

The Bega Foods portfolio also includes the ZoOSh range of salad dressing, dips and other spreads.

AN ATTRACTIVE BUSINESS PLATFORM TO GROW

Bega Foods has a strong, stable cashflow. It has low capital intensity and room for organic growth and acquisition, utilising spare capacity at the Port Melbourne manufacturing facility. Spreads products have a positive growth outlook and cater to snacking, offering quick, easy, tasty food options for consumers. Healthy snacking is on the rise, with macro changes in snacking consumption reflecting the trend towards healthier lifestyles. Bega Foods and the health benefits of its nut spreads are well positioned to capitalise on this.

WHILE THE MARKETS IN WHICH WE OPERATE WILL PRESENT NEW OPPORTUNITIES AND CHALLENGES, WE BELIEVE OUR TRANSFORMATION WILL DELIVER A STRONGER BUSINESS WITH MORE PATHS FOR GROWTH AND WILL PROGRESS US FURTHER IN ACHIEVING OUR VISION TO BE THE GREAT AUSTRALIAN FOOD COMPANY

BRINGS NEW CONSUMER-CENTRIC INNOVATION AND MARKETING CAPABILITIES

The Group historically has entered major new consumer brand areas in partnership with organisations with well-established marketing and consumer insight capability. This acquisition builds that capability internally. It opens up new pathways for growth, allowing consumer-centric innovation to be launched either directly or in conjunction with partners.

INCREASES SALES RESOURCES AND DISTRIBUTION FOOTPRINT IN AUSTRALIA

Bega Foods substantially increases the sales resource and distribution footprint of the Bega Cheese Group in Australia. This creates new product cross-selling opportunities and expands the breadth of potential customers that the Group can sell to. Bega Foods also increases the depth of the Group's sales service offer, with greater resources in category management, merchandising and shopper insight development, to better support customers and brands instore.

ALLOWS THE GROUP TO FURTHER ITS EXPERTISE IN FOOD MANUFACTURING

The expanded Bega Cheese Group will be able to share and harness wider collective expertise and strengths in food manufacturing. The Group has extensive operations capabilities and knowledge of lean and innovative food manufacturing processes. Bega Foods has a highly experienced operations team, focussed on best practice and continuous improvement. Combining the collective knowledge and skills of the two businesses within the Bega Cheese Group will have enterprise wide value.

Focussing on the near-term future, our priorities are threefold:

PROTECTING OUR STRONG BUSINESS FOUNDATIONS

We will remain focussed on completing the integration of Bega Foods as a business unit within the broader Bega Cheese Group. We will continue to protect the strengths, reputation and returns of the dairy business during this transition, managing the business through changing markets and maintaining a globally competitive supply chain.

REALISE THE GROWTH POTENTIAL OF THE COMBINED BUSINESS

We will continue to foster a culture of shared values and behaviours across the Group, driving financial performance through a business unit structure, with each business unit focussed on distinct market segments, customer service and quality metrics. This structure promotes entrepreneurial approaches and decentralised, empowered decision making to energise and enable our staff to get things done. We will leverage and grow the iconic brand portfolio by cross linking brands and products and utilising the new capability in manufacturing, sales and marketing to fill in commercially attractive gaps in geographies, channels and categories.

OPTIMISE RESOURCES AND MAINTAIN FINANCIAL FITNESS FOR SUCCESSFUL AND SUSTAINABLE EXPANSION

We will continue to remain agile and well positioned to identify and execute corporate opportunities which we identify. We have new opportunities to pursue best practice and will continue investing in efficiency and optimisation of infrastructure. We will maintain our focus on a strong balance sheet and optimise our cash flow across the combined business.

While the markets in which we operate will present new opportunities and challenges, we believe our transformation will deliver a stronger business with more paths for growth and will progress us further in achieving our vision to be The Great Australian Food Company.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

A YEAR OF ACHIEVEMENT WITH FOCUS ON THE FUTURE

I am very pleased to report that FY2017 has been a year of significant achievement for the Bega Cheese Group, with key highlights as follows:

- performance of the Group was strong, in challenging circumstances, with a record statutory profit after tax and growth in both top line revenue and underlying normalised operating profit
- proactively addressed dynamic changes in the infant formula market, as Australian and other global infant suppliers addressed regulatory changes to apply in China
- continued to invest for the future, with a number of capital expenditure projects increasing overall capacity and efficiency in our core businesses, whilst also managing an important change in customer mix in the cheese business
- strongly supported our milk suppliers during a period of significant disruption in the Australian dairy industry. The Group acknowledges the loyalty and trust of our traditional milk suppliers and welcomes new suppliers who joined us this year
- two major corporate activities were undertaken through the year, being completion of the sale of infant nutritional assets to and formation of a long-term strategic alliance with Mead Johnson (MJN Alliance) on 24 April 2017 and the announcement of the purchase of the MDLZ Grocery Business, which completed on 4 July 2017. Both corporate activities have been positively received by key stakeholders
- completed a capital raising through an Institutional Placement on 26 June 2017 and commenced a SPP, which completed on 8 August 2017
- during a busy year of industry challenges and corporate activities the Board and management team maintained focus on core business activities, suppliers and customers whilst evolving the organisational design and leadership to facilitate success into the future.

HIGHLIGHTS FROM REVIEW OF OPERATIONS

The Bega Cheese Group generated statutory profit after tax of $138.7 million. This record statutory result included the net effect of a large one-off profit on sale of assets under the MJN Alliance, less other one-off transaction costs relating to corporate activity throughout the year.

After adjusting for material one-off items, the Group generated a normalised profit after tax of $30.3 million, with top line revenue of $1.2 billion which grew by 3%.

The strong normalised financial performance of the Group is evidence of:

- the resilience of the Bega Cheese Group's strategic plan
- the ability of the Board and leadership team to identify and respond to material changes affecting the Group's business model, the markets we operate in and the customers we service, including:
  - ongoing volatility in the domestic dairy industry creating uncertainty and financial pressures at the dairy farmer level
  - fundamental changes to the infant nutritionals industry as a result of regulatory changes announced in China
  - other customer mix changes throughout the year
- the ability of the business to remain focussed on delivering excellent operational performance whilst also conducting an unprecedented level of major corporate activity throughout the year.

Whilst the normalised profitability of the Group was up on the prior year, there was a change in the contribution from each of the reporting segments. The Tatura Milk segment generated a very strong statutory and normalised result, while the Bega Cheese Limited segment result was down on prior years.

> THE GROUP AIMS TO COMBINE THE BRANDED BUSINESSES OF THE BEGA CHEESE GROUP AND THE MDLZ GROCERY BUSINESS AND UTILISE THE INCREASED BRANDS, PRODUCT CATEGORIES AND MARKETING CAPABILITY TO OPEN UP NEW MARKETS AND BRAND EXTENSION OPPORTUNITIES IN FY2018 AND BEYOND

REVIEW OF FINANCIAL PERFORMANCE

As in prior years, the Group will report on both the statutory result and the normalised result for FY2017 compared to the prior year, with the focus of commentary being on the normalised result, representing the continuing operations of the Group.

GROUP STATUTORY RESULT FY2017

On a statutory reporting basis, the Bega Cheese Group generated:

- earnings before interest, tax, depreciation and amortisation (EITDA) of $228.9 million, compared to $65.4 million in FY2016, being an increase of 250%
- earnings before interest and tax (EBIT) of $200.8 million compared to $43.5 million in FY2016, being an increase of 362%
- profit before tax (PBT) of $198.0 million, compared to $39.9 million in FY2016, being an increase of 396%
- profit after tax (PAT) of $138.7 million, compared to $28.8 million in FY2016, being an increase of 382%
- earnings per share (EPS) of 90.9 cents, compared to 18.9 cents in FY2016, being an increase of 381%.

The improvement in these key statutory financial metrics are a very positive outcome for the Group.

GROUP NORMALISED RESULT FY2017

A number of material one-off transactions were addressed in FY2017. These one-off items are discussed in more detail in the commentary on significant events in the annual report, and are summarised below:

- in the 1H FY2017 interim financial report of the Bega Cheese Group reported an inventory impairment totalling $7.1 million before tax relating to infant formula inventory specific to the Bemore Partnership with Blackmores, this increased to $8.1 million before tax as sell through of inventory on hand at the half-year did not eventuate as initially expected
- on 20 January 2017 the Bega Cheese Group announced it had entered into an agreement to purchase the MDLZ Grocery Business, which, whilst completed on 4 July 2017, incurred a number of one-off transaction, transitional and other costs totalling $11.5 million before tax in relation to the purchase prior to 30 June 2017
- on 24 April 2017 the Group completed the sale of infant nutritional assets to Mead Johnson and formed the MJN Alliance, which resulted in a material capital gain of $177.8 million after transaction costs and before tax
- prior to entering into the MJN Alliance the Group had been investing in a D90 whey dryer and a lactoferrin plant (to service the Group's own infant nutritionals business) which were suspended as a result of the Group's decision to enter into the MJN Alliance, incurring an asset impairment totalling $2.5 million before tax
- prior to the purchase of the MDLZ Grocery Business the Group had been developing other management information systems that complement our enterprise resource planning (ERP) system which are not suitable for the MDLZ Grocery Business, resulting in an intangible asset impairment totalling $0.8 million before tax.

These items each had a material one-off financial impact on the statutory performance of the Bega Cheese Group in FY2017 that do not reflect the ongoing underlying business. In order to provide a more meaningful understanding of the underlying financial performance of the Group normalising adjustments have been made for each of these items to the statutory financial statements, which have been set out in more detail in the table below:

CONSOLIDATED	Per Financial Statements $'000	Inventory Losses $'000	Bega Foods Acquisition Costs $'000	Sale of Nutritionals Assets $'000	Asset Impairments $'000	Milk Sustainability and Growth $'000	Normalised outcome $'000
Year ending 30 June 2017							
Revenue	1,226,663	-	-	-	-	-	1,226,663
Cost of sales	(1,072,436)	8,085	-	-	-	-	(1,064,351)
Gross profit	**154,227**	**8,085**	**-**	**-**	**-**	**-**	**162,312**
EBITDA	228,850	8,085	11,518	(177,833)	-	-	70,620
Depreciation, amortisation and impairment	(28,023)	-	-	-	3,347	-	(24,676)
EBIT	200,827	8,085	11,518	(177,833)	3,347	-	45,944
Net finance costs	(2,789)	-	-	-	-	-	(2,789)
Profit before income tax	**198,038**	**8,085**	**11,518**	**(177,833)**	**3,347**	**-**	**43,155**
Income tax expense	(59,290)	(2,425)	(3,455)	53,350	(1,004)	-	(12,824)
Profit for the year	**138,748**	**5,660**	**8,063**	**(124,483)**	**2,343**	**-**	**30,331**
Gross margin - percentage	**13%**						**13%**
Basic earnings per share - cents	**90.9**						**19.9**
Year ending 30 June 2016							
Revenue	1,195,967	-	-	-	-	-	1,195,967
Cost of sales	(1,042,595)	-	-	-	-	604	(1,041,991)
Gross profit	**153,372**	**-**	**-**	**-**	**-**	**604**	**153,976**
EBITDA	65,405	-	-	-	-	604	66,009
Depreciation, amortisation and impairment	(21,909)	-	-	-	-	-	(21,909)
EBIT	43,496	-	-	-	-	604	44,100
Net finance costs	(3,596)	-	-	-	-	-	(3,596)
Profit before income tax	**39,900**	**-**	**-**	**-**	**-**	**604**	**40,504**
Income tax expense	(11,121)	-	-	-	-	(181)	(11,302)
Profit for the year	**28,779**	**-**	**-**	**-**	**-**	**423**	**29,202**
Gross margin - percentage	**13%**						**13%**
Basic earnings per share - cents	**18.9**						**19.1**

On a normalised basis, the Bega Cheese Group generated:

- EBITDA of $70.6 million, compared to $66.0 million in FY2016, being an increase of 7%
- EBIT of $45.9 million, compared to $44.1 million in FY2016, being an increase of 4%
- PBT of $43.2 million, compared to $40.5 million in FY2016, being an increase of 7%
- PAT of $30.3 million, compared to $29.2 million in FY2016, being an increase of 4%
- EPS of 19.9 cents, compared to 19.1 cents in FY2016, being an increase of 4%.

The record statutory result and very strong normalised financial performance of the Group in FY2017 is a very pleasing outcome, given the ongoing disruption to the Australian dairy industry, volatility of infant formula markets and the extensive corporate transactions successfully managed during FY2017.

PROFORMA BALANCE SHEET AT 30 JUNE 2017

Two important corporate activities completed immediately subsequent to 30 June 2017, being the MDLZ Grocery Business acquisition and the SPP capital raising. Each of these one-off transactions had a material impact on the Group's Balance Sheet. Whilst these impacts were subsequent to the end of the financial year, it is relevant to consider the effect of these impacts on the Balance Sheet as reported at 30 June 2017. Provided below is a proforma balance sheet including relevant adjustments for each of these one-off transactions, had they occurred prior to the end of the financial year:

CONSOLIDATED	Per Financial Statements $'000	Bega Foods Acquisition* $'000	SPP Capital Raising $'000	Proforma Balance Sheet $'000
Assets				
Cash and cash equivalents	475,533	(455,985)	-	19,548
Trade and other receivables	168,536	-	-	168,536
Inventories	167,898	34,000	-	201,898
Property, plant and equipment	196,799	90,383	-	287,182
Intangible assets	22,650	377,562	-	400,212
Other assets	24,844	-	-	24,844
Total assets	**1,056,260**	**45,960**	**-**	**1,102,220**
Liabilities				
Trade and other payables	169,324	-	-	169,324
Borrowings	215,344	-	(49,930)	165,414
Current tax liabilities	63,911	-	-	63,911
Other liabilities	35,007	45,960	-	80,967
Total liabilities	**483,586**	**45,960**	**(49,930)**	**479,616**
Equity				
Share capital	224,692	-	49,930	274,622
Reserves	21,656	-	-	21,656
Retained earnings	326,326	-	-	326,326
Net assets	**572,674**	**-**	**49,930**	**622,604**
Net debt				**145,866**
Net debt to equity ratio				**23%**

* Based on provisionally determined purchase price allocation and excluding transaction costs incurred after 30 June 2017.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

CASH FLOW

The Group generated net cash inflow from operating activities of $57.1 million in FY2017, compared to net cash inflow of $59.0 million in FY2016.

Factors impacting operating cash flow in FY2017 include:

- an increase in trade and other receivables of $10.8 million, driven by an increase in sales activity, and change in retail customer mix
- a decrease in inventory of $24.5 million driven by reduced finished goods on hand of commodity products, bulk cheese and infant formula
- payment of tax of $10.7 million in the ordinary course of business.

NET DEBT AND DEBT FACILITIES

The Bega Cheese Group continues to enjoy the support of its bankers via a primary Syndicated Facility with Coöperatieve Rabobank U.A. (Rabobank Australia Branch), and Westpac Banking Corporation (Syndicate Bankers), an inventory facility with Rabobank and other minor overdraft and guarantee facilities provided by Westpac.

In support of the acquisition of the MDLZ Grocery Business, the Syndicate Bankers and the Bega Cheese Group entered into an updated Syndicated Facility which provided two additional tranches, being a revolving facility of $200 million with a two-year term and a fixed three-year term facility of $100 million.

As at 30 June 2017 the cash flow and balance sheet of the Group had the cash benefit of the following major one-off events:

- receipt of $180 million in April 2017 and $10 million in June 2017 being tranche payments against the proceeds on sale of various assets under the MJN Alliance, with resulting tax not due for payment until the second half of FY2018
- receipt of $122.5 million from the Institutional Placement component of the capital raising on 29 June 2017
- settlement of the MDLZ Grocery Business acquisition was initially planned for 30 June 2017. This was deferred at very late notice as a result of a cyber-attack on critical management information systems operated by Mondelēz, resulting in the Group having drawn down $217.1 million under the Syndicated Facility, which was added to a short-term deposit at year end, pending final settlement on 4 July 2017.

The Group's net cash on hand as at 30 June 2017 was $258.5 million, which compared to net debt of $53.1 million in FY2016, being a material but abnormal one-off improvement in the net cash held by the Group of $311.6 million.

The Group has continued to trade well within its facility limits throughout FY2017.

The Group had $463.0 million in available debt facilities as at 30 June 2017 (in addition to net cash on hand of $258.5 million), although $456.0 million was paid to Mondelēz on 4 July 2017 for the purchase of the MDLZ Grocery Business.

CAPITAL INVESTMENT IN FY2017

Capital investment totalled $40.8 million in FY2017 (FY2016: $39.7 million).

Capital expenditure totalling $25.3 million was invested in plant and equipment. The key projects that delivered enhanced production capacity and capability were as follows:

- the Ridge Street facility commissioned a new natural cheese slices line and a new shredded cheese line. These investments deliver high speed, highly automated production lines with the flexibility of multi-pack size formats. These investments improve the Group's competitiveness and align the business to key growth segments in FMCG and food service cheese products
- increased cream cheese processing capacity and installed further food service filling capacity. Cream cheese continues to be a growth product for the Group and is a key focus in the international foodservice strategy.

Capital expenditure totalling $14.6 million was invested in a new management information system (ERP Project), which commenced in the prior year and was originally scoped to service the Bega Cheese Group, excluding the MDLZ Grocery Business. That business was acquired as a 'business carve-out' and did not include an integrated management information system.

On announcing the acquisition, the ERP Project team substantially extended the scope of the project to include deployment of the ERP solution to service the MDLZ Grocery Business as the first priority. The team focussed on the staged deployment of the chosen ERP solution at the MDLZ Grocery Business across 'order to cash' with Mondelēz providing other information systems to support a smooth transition. Stage one of the management information system was successfully commissioned in the MDLZ Grocery Business on 4 July 2017, ready for day one, being an outstanding achievement by all involved in this significant company-changing initiative.

SALES REVENUE

The Group generated sales revenue increase of 3% to $1.2 billion in FY2017. The key highlights to the top line revenue activities in FY2017 are as follows:

- continued focus on growing consumer and food service dairy products, brands and customers, which are traditionally more stable business segments than dairy commodities, with the acquisition of the MDLZ Grocery Business expected to provide a material step-change in this area of our business in the future
- foodservice sales growing by 22% compared to prior year, which is ahead of the market growth in many countries. We have continued to focus on developing our product offer and support our core brands, with the Bega brand growing strongly in China and Malaysia and the Dairymont brand expanding into Vietnam, Thailand and Indonesia
- the nutritionals business generated global revenue of $185 million and comprised approximately 15% of the Group's total sales revenue in FY2017
- proactive management of key infant formula customers through significant uncertainty as the major infant formula participants responded to China's announcements of proposed changes to legislation governing importation of infant formula into China from January 2018
- in a year of substantial disruption and uncertainty in the infant formula market the Group was pleased to have been able to maintain a strong position in this market, with satisfactory throughput and underlying profitability
- the Group's cut, pack and processed cheese business successfully managed closing out the Coles everyday cheese private label contract and taking up the Woolworths everyday cheese private label business, with supply and customer service to both companies being maintained
- the various retailers own label business the Bega Cheese Group is now servicing was secured at a time of intense competition, with the Group now focussed on resetting this business in line with the recent upward movement in the value of table grade cheese
- increases in cream cheese sales of 14% and mozzarella sales of 42%, with the majority of growth coming from Japan, South Korea and Australia. These increases underpinned the performance of the ingredients business. The excellent product quality of these ingredients has seen ongoing sales growth into quick service restaurant and industrial baking customers.

Development of the Bionutrients commercial platform has been slower than expected, due mainly to continuing suppressed returns from lactoferrin and uncertainty in global infant formula markets. As a result, our investment in Bionutrients has been rationalised and consolidated into the Nutritionals platform.

The Group continues to enjoy longstanding relationships with its domestic customer base whilst building on new relationships. The Group has also continued to develop its broad customer base across China, Japan, New Zealand, Middle East and South East Asia.

BRAND PORTFOLIO

Fonterra continues to have access to and use of the Bega brand on cheddar cheese, processed cheddar cheese, string cheese and butter for sale in Australia under a long-term trademark licence agreement. Under Fonterra's stewardship, the Bega brand has continued to perform well in the cheese category. The Bega brand continues its leadership of the Australian retail cheese category with 15.7% market share during FY2017.

The Australian domestic cheese market remains highly competitive and Fonterra has successfully maintained the Bega brand presence at shelf across the major Australian retailers. We thank Fonterra and the retailers for their continued support of the Bega brand.

The Group also directly sells and markets a range of dairy brands in Australia and export markets, including Bega (mainly export cheese markets), Tatura, Royal Victoria, Melbourne and Dairymont. These brands are available in more than 40 countries, with combined revenues of approximately $289 million. Ongoing brand portfolio management and investment in sales and marketing are creating stronger sales in these core brands, with revenue growth of 5% over prior year.

The acquisition of the MDLZ Grocery Business in July 2017 expands the Group's brand portfolio with the addition of Vegemite, one of Australia's most iconic and powerful brands, to the portfolio. A number of other leading branded products have also been acquired or licenced with the MDLZ Grocery Business.

The Group aims to combine the branded businesses of the Bega Cheese Group and the MDLZ Grocery Business and utilise the increased brands, product categories and marketing capability to open up new markets and brand extension opportunities in FY2018 and beyond.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

OPERATIONS

The Group achieved production output of 236,928 tonnes in FY2017, which was in line with FY2016. A summary of the volume of production is shown by business platform in the chart below.

The Group continues to invest for the future by increasing capacity, capabilities and efficiency of operations, together with improvements to safety and environmental management aligning our capacities and capabilities with the market and our growth objectives.

During FY2017 management commenced a cost review across the majority of the Group. With the assistance of external experts and a committed management team the Group has developed continuous improvement initiatives and identified further cost saving opportunities. A work program has been expanded to implement the savings during FY2018 and beyond. This cost saving focus will become a key component of the way the Bega Cheese Group will conduct business in the future.

Productivity and yield improvements have been achieved across most of the operations in the Group in FY2017, with highlights including an increase in natural slices and shred capacity at Bega and an increase in cream cheese capacity at Tatura.

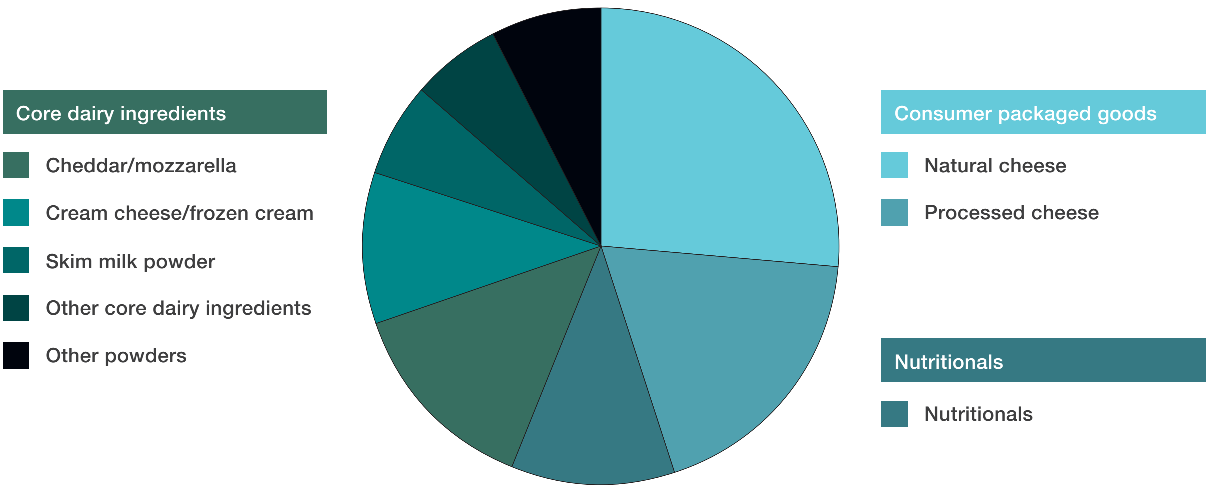
ENVIRONMENT

In FY2017 the business achieved a 6.5% reduction in energy use per tonne of production while overall water consumption across the Group decreased by 6.7%.

Energy availability, reliability, sustainability and cost will be a major issue for Australian manufacturing, food and agri-business industries moving forward. Domestic markets have been experiencing a move to cleaner energy sources and traditional supply is being phased out due to environmental impact and other industry dynamics. These factors will place increasing pressure on Australian industries to seek more efficient sources of energy and find ways to reduce energy consumption per unit of finished product manufactured.

Water is also a key input to most large scale Australian food and agri-business industries. Like energy, water availability, reliability, sustainability and cost are also issues for the Group to consider, both in the business and across the dairy farmer supplier base. The Group will continue to seek opportunities to optimise water usage and the cost of that water to the business.

The Group continues to invest in environmental initiatives within our business and across the dairy farm suppliers who support us. The Group remains focussed on reducing the environmental impact of our manufacturing sites and the efficient use of precious resources and we are proud of our track record, as detailed in the Sustainability Report.



SAFETY

The Bega Cheese Group's safety performance continues to improve year on year, with a 15% reduction in our total recordable injury frequency rate (TRIFR) in FY2017. The commitment of our front line leadership has been underpinned by ongoing capital investment to protect our employees and rationalise many manual tasks. Our goal is to have no injuries and with eight lost time injuries sustained during FY2017, the Group recognises that there is still some way to go.

During 2017 we revised our safety objective to sustain and accelerate the rate of improvement into the future. The primary focus is on reducing critical risk exposures through a two-year behavioural safety initiative, with the aim to improve the rates of engagement and enhance the capability of our leaders in reducing risk exposure. We will also incorporate learnings from the MDLZ Grocery Business, which has an excellent safety record.

MILK SUPPLY

There was a major correction in April and May of 2016 to milk prices paid to farmers supplying the industry's largest milk collection groups. This had a dramatic adverse impact on the farmers directly affected and caused significant uncertainty and volatility in the Australian dairy industry, which continued into FY2017.

The Bega Cheese Group continued to honour its representations to farmers and held the opening milk price through to the end of FY2016. The Group opened with a strong milk price in FY2017 in the context of the global market, which exceeded that paid by the largest milk collection groups.

Milk collected from direct suppliers totalled 654 million litres in FY2017, which was in line with FY2016. Bega Cheese was able to maintain milk intake, a 7% decline in national milk production and a 16% decline in milk production in northern Victoria, which is where we collect the majority of our milk.

In a year of significant change, I would like to acknowledge the efforts of the milk supply services team, who have welcomed and helped transition new farmers to the Bega Cheese Group and implemented the on-farm sustainability and growth initiatives to assist our current milk suppliers which will help underwrite the economic activity of the business and our future growth.

The Bega Cheese Group continues to focus on being a company of choice for dairy farmers and maintaining our reputation that is based on trust, transparency and consistency. We would like to thank all those who continue to support the Bega Cheese Group. Our business is dependent on a sustainable milk supply and we remain committed to delivering outcomes for our dairy farmers that create a sustainable future for all.

INVESTMENTS

The Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra, with Lion Dairy and Drinks holding the other 75%. The financial performance of CCFA improved in FY2017 as the joint venture partners and management focussed on cost reduction and market developments.

Bemore is a joint operation, held equally by the Bega Cheese Group and Blackmores. Bemore was established in October 2015 to market, sell and distribute finished infant nutritional powders and other life stage dairy based nutritional powders in Australia and Asia. Bemore has not met the expectations of the partners. The business has incurred operating losses since inception, with the Bega Cheese Group taking up inventory losses of $8.1 million in FY2017. The partners continue to monitor the operating performance of the joint operation.

During FY2017 the Bega Cheese Group sold assets in infant canning plant and equipment at the Derrimut infant facility and an infant formula dryer at the Tatura facility and entered into the MJN Alliance. The long-term MJN Alliance sees the Group provide MJN manufacturing services, specialist infant formulations development and utilities service in exchange for management fees. In addition, the Group has retained access to and use of the Derrimut canning facility and the dryer at the Tatura facility on a predetermined proportional basis. Further details of this MJN Alliance are addressed in the Significant Events note to the 2017 Financial Statements.

During FY2017 the Bega Cheese Group announced that it would acquire the MDLZ Grocery Business, which ultimately completed subsequent to year-end. This transaction is covered in more detail in both the Subsequent Events note and the Significant Events note to the 2017 Financial Statements.

The Bega Cheese Group continues to position the business to undertake investments in the future where such investments facilitate ongoing development of its strategic plan, provide synergy opportunities and represent a sound commercial return on investment to key stakeholders.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES

PEOPLE & ORGANISATIONAL DEVELOPMENT

The record statutory profit after tax, record normalised financial performance, continuous improvement in operational performance, entering into the MJN Alliance, acquisition of the MDLZ Grocery Business and raising of capital through an Institutional Placement in FY2017 would not have been achieved without the dedication and commitment of all our employees. As outlined in this report there has been a significant amount of activity during FY2017. The Bega Cheese Group would not be successful without the commitment and passion of our people. I would like to thank all staff for their contribution and can say that I am proud to be part of a team of people that has a positive attitude and is focussed on getting the job done whilst upholding the values that help define our organisational culture.

In 2017 we will complete the change to a new business unit structure that better aligns the activities of our business towards each of our key customer, market, channel and product groups. This will ensure the business remains quick to adapt and take advantage of market opportunities as we continue to grow, with empowered decision-making and clarity of purpose in each unit of the business. We will also continue to streamline the supply chain and optimise return on milk solids across the different business units, to realise synergies of the larger business as a whole and remain cost competitive in food manufacturing.

It is a privilege to assume the role of CEO of such a great company in a year of significant achievement. I thank the Chairman and Board for entrusting me with such an important custodian role in servicing the Group's stakeholders and the support they consistently provide the business.

STRATEGIC OUTLOOK

Favourable returns to key stakeholders, ongoing growth of the business by internal expansion and acquisitions and cultivating a positive culture in all that we do will continue to drive the strategic imperatives of the Bega Cheese Group.

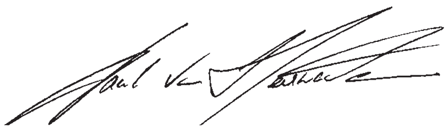
Our strategic direction will continue to build the business towards our vision - to become The Great Australian Food Company. The successful capital raising has strengthened the balance sheet and the focus on cash generation will ensure we remain ready and agile to support further corporate acquisition. Further corporate activity will be aligned to our core capabilities in food technology, manufacturing operations and market development of both our core dairy and broader foods portfolio.

In the near term, we will focus on realising the potential of the MDLZ Grocery Business acquisition. We have enhanced the Group's capabilities in sales, marketing and manufacturing and we now have an expanded brand and product portfolio. This has opened up new channels and categories to expand in.

The outlook for global dairy markets and pricing is cautiously positive, with a more "balanced" supply and demand picture. The expected improvement in farmgate prices has tempered the forecast falls in milk production volumes in many exporting countries, including Australia. Global forecasts are for a rebound in milk production in 2017 and 2018. While these are positive signs internationally, there remains volatility in the outlook.

The medium to long-term view is still one of increasing demand for dairy products in key markets in Asia. The Group remains focussed on developing our presence in attractive Asian markets, while at the same time taking advantage of our expanded business platform in Australia.

Finally, I would like to thank Aidan Coleman, he has been a strong leader and mentor and provided me with a number of opportunities to develop in the various roles I have had with the Group.



Paul van Heerwaarden
Chief Executive Officer
23 August 2017

Key Management Personnel, from left to right: Paul van Heerwaarden, Colin Griffin, Barry Irvin, David McKinnon, Garth Buttimore.

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THE ANNUAL FINANCIAL REPORT OF THE BEGA CHEESE GROUP FOR THE YEAR ENDED 30 JUNE 2017.

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, Giant Steps Melbourne Limited and Giant Steps Sydney Limited.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Board.

RICHARD CROSS

BAgSci (Hon), GAICD

Director since December 2011.

EXPERIENCE AND EXPERTISE

Richard Cross has represented dairy farmers in many various industry roles, he is currently the Chair of Murray Dairy, Inc., a position he has held for two years. He also owns and actively manages a progressive dairy farm in Northern Victoria.

OTHER CURRENT DIRECTORSHIPS

Director of Murray Dairy Inc.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

SPECIAL RESPONSIBILITIES

Member of the Nomination, Remuneration and Human Resources Committee.

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. He 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. Peter is currently Executive Chairman of Asahi Holdings (Australia) Pty Ltd and a member of the Advisory Board of Grant Samuel.

OTHER CURRENT DIRECTORSHIPS

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

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

PMP Limited, Huon Aquaculture Limited and Ricegrowers Limited.

SPECIAL RESPONSIBILITIES

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

RAELENE MURPHY

BBus, CA, GAICD

Independent Director since June 2015.

EXPERIENCE AND EXPERTISE

Raelene Murphy has over 30 years' experience in strategic, financial and operational leadership in both industry and professional advisory. In her professional advisory career, she specialised in operational and financial restructuring including merger and acquisition integration. She was formerly a Managing Director at KordaMentha and a Partner in a national accounting firm where she led the corporate turnaround practice. Her industry experience includes as CEO of the Delta Group and senior executive roles in the Mars Group.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Altium Limited, Service Stream Limited, Tassal Group Limited and Ross House Investments Pty Limited (Stillwell Motor Group). Raelene is also Deputy Chairman of the DOXA Youth Foundation.

FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

EVZ Limited.

SPECIAL RESPONSIBILITIES

Chair of the Audit & Risk Committee.

JEFF ODGERS

BBus (Ag Mgt)

Director since December 2011.

EXPERIENCE AND EXPERTISE

Jeff Odgers owns a 700-cow dairy business on two irrigation 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

Nil.

SPECIAL RESPONSIBILITIES

Chair of the Milk Services Committee.

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

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

Nil.

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 at 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 agri-political, Board representation and direct dairy farming activities.

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.

DIRECTORS' REPORT

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 2017 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:

	2017 $'000	2016 $'000
Interim ordinary dividend for the year ended 30 June 2017 of 5.0 cents	7,630	-
Final ordinary dividend for the year ended 30 June 2016 of 5.0 cents	7,630	-
Interim ordinary dividend for the year ended 30 June 2016 of 4.5 cents	-	6,867
Final ordinary dividend for the year ended 30 June 2015 of 4.5 cents	-	6,867

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $9.3 million (5.0 cents per fully paid share) to be paid on 13 September 2017.

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 the Bega Cheese Group since the last Annual Report.

INDEMNIFICATION AND INSURANCE PREMIUMS FOR OFFICERS

During the financial year, the 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 the 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.

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 32 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 the Governance Institute of 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 34 years' experience. Colin Griffin's primary responsibility is as Chief Financial Officer (CFO).

MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The following table sets out the number of Board, Audit & Risk Committee, Nomination, Remuneration and Human Resources Committee and Milk Services Committee meetings held during the year ended 30 June 2017 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	6	6
Peter Margin	6	6
Richard Parbery	6	6

	Meetings of the Nomination, Remuneration and Human Resources Committee	
	Held and Eligible	Attended
Peter Margin	4	4
Richard Cross	4	4
Richard Platts	4	4
Max Roberts	4	4

	Meetings of the Milk Services Committee	
	Held and Eligible	Attended
Jeff Odgers	3	3
Max Roberts	3	3

	Meetings of the Board of Directors	
	Held and Eligible	Attended
Barry Irvin	21	21
Richard Cross	21	21
Peter Margin	21	21
Raelene Murphy	21	19
Jeff Odgers	21	21
Richard Parbery	21	20
Richard Platts	21	20
Max Roberts	21	21

Raelene Murphy, Richard Parbery and Richard Platts gave apologies in advance of the meetings they were unable to attend.

ENVIRONMENT AND SUSTAINABILITY

OVERVIEW

The Bega Cheese Group is committed to protecting the environment, ensuring sustainable resource use and meeting the expectations of our stakeholders and communities in which we operate. This commitment applies in the broad context of the business, from the farm to the factory and through to our customers. It is a commitment, which is delivered through actions taken by the Group to assist farmers to improve land management practices, ensure appropriate animal husbandry and reduce the impact of dairy on water catchments. Within our factories and across our supply chain, actions are taken by the Group to reduce the resource intensity of manufacturing, minimise generation of waste, recycle where possible and ensure compliance with applicable regulations.

ON FARM SUSTAINABILITY

The Group is committed to supporting the long-term sustainability of its milk suppliers. The Group employs a dedicated field services team with expertise across a variety of fields to help suppliers manage a broad range of issues. On farm sustainability assessments have been completed for over 350 suppliers which has identified the priority sustainability issues affecting each supply region. This data has been used to develop new program targets and will guide the delivery of support programs into the future.

The focus for FY2017 was implementing workshops and programs that helped suppliers improve the efficiency of their business whilst also reducing the impact their dairy businesses have on the local environment and greenhouse gas emissions. This initiative was supported with funding from the Federal Government. Key initiatives implemented included monthly discussion groups in the Bega region and farm consultations for herd nutritional support for suppliers in northern Victoria. Helping our suppliers maximize the health and growth of calves by providing access to a leading industry expert was also a key initiative implemented under the program. FY2017 was the final year of funding under the Carbon Farming Futures Extension and Outreach Program.

On ground environmental works supported with funding by the South East Local Land Service continued in the Bega region. A cumulative summary of the achievements to FY2017 is as follows:

Number of projects approved	159
Number of projects completed	109
Number of effluent systems upgraded	50
Number of wetlands protected	72
Fencing installed	242km
Streams protected	405ha
Riparian areas revegetated	247ha
Shade and shelterbelts created	116ha

DIRECTORS' REPORT

MILK SUSTAINABILITY AND GROWTH

The Milk Sustainability and Growth program continued to be delivered across all regions. Significant progress in the implementation of milk growth projects was achieved despite the difficult weather conditions experienced across much of Victoria.

The Group is grateful for the support received in delivering environmental improvements, both through Government funding and working with milk suppliers, including receiving:

- grant funding of $266,000 for FY2017 as part of the multi-year $850,000 support package from the Federal Government Department of Agriculture
- funding support of $295,000 provided by the NSW South East Local Land Service for on ground environmental works on dairy farms in the Bega region in FY2017.

ENVIRONMENTAL REGULATIONS AND MANAGEMENT

LEGISLATIVE FRAMEWORK

The Group is subject to Federal and State Environmental Regulations. These include reporting requirements under the *National Greenhouse and Energy Reporting Act 2007* (Cth), the *Environment Protection Act 1997* (NSW), the *Protection of the Environment Act 1970* (Vic) and the *Clean Energy Act 2011* (Cth).

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.

During FY2017 the Group complied with all annual reporting obligations and continues to monitor and report energy intensity and carbon footprint.

MAJOR ENVIRONMENTAL INITIATIVES

The management team fosters a close working relationship with regulators and strives to ensure compliance. In areas where impacts have been identified or opportunities for further improvement recognised, the Group has developed actions and actively manages these across sites.

In FY2017, activities to reduce environmental impacts and improve resource use have included:

- construction of a centralised clean-in-place (CIP) kitchen at the Tatura site to optimise cleaning processes. This has reduced chemical use and sodium discharges
- significant financial contribution to allow the Bega Valley Shire Council to extend the municipal wastewater system to the two Bega Cheese sites in NSW. This mitigates the risk of contaminants being irrigated onto land
- extension of the acoustic wall around the perimeter of the Coburg site and the installation of automatic gates. These further works have further reduced noise emissions from the site
- establishment of a cross-functional Energy Working Group led by executive management who have been tasked with identifying opportunities and managing projects to improve energy efficiency across the Bega Cheese Group.

The Bega Cheese Group has a commitment to reduce the environmental footprint of its manufacturing operations and monitors and reports on a range of environmental metrics. Notable achievements in FY2017 included:

- reducing energy intensity by 6.5%
- reducing solid waste by 1.5%
- increasing recycled solid waste by 8.2%.

COMPLIANCE WITH REGULATIONS

During FY2017 the Group received a penalty notice of $1,300 from the relevant authority in relation to an incident in February 2017 where a vehicle operated by a third party on behalf of the Group was inspected and found carrying dangerous goods without the appropriate licence or documentation in place. In response, Bega has implemented management processes to ensure third party vehicles comply with dangerous goods regulations before consignments are despatched.

Also during FY2017 the Group received an infringement notice of approximately $8,000 and an official warning from the relevant authority for failing to comply with a pollution abatement notice and exceeding noise emissions from the Coburg site. In response, the Group is implementing a detailed action plan to mitigate the major noise sources. These activities, building on those undertaken in prior years have substantially reduced noise emissions levels from the site. The Group is continuing to work towards full compliance and maintaining positive engagement with the relevant authority.

SUSTAINABILITY STRATEGY

BEGA CHEESE GROUP STRATEGIC PLAN 2017-2021

In FY2017 the Bega Cheese Group identified sustainability as one of six strategic priorities, committing to set longer term sustainability and environmental objectives and action plans. This commitment elevates sustainability from an operational matter to a key business driver.

ROADMAP FOR SUSTAINABILITY

In order to identify long-term objectives and actions for sustainability, the Group engaged a third party to facilitate a materiality assessment, which was then validated by management. The materiality assessment ensures the sustainability strategy is responsive to customer and community interests as well as the impacts of the business. The Group will report on objectives and actions to manage these material interests and impacts as part of its sustainability report.

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 2017.

KEY MANAGEMENT PERSONNEL (KMP)

Details of Directors are set out in the Directors' report on pages 18 to 33.

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 FY2017:

Name	Positions held	Entity
Aidan Coleman	CEO to 31 January 2017	Group
	Executive Director to 31 January 2017	Tatura Milk
Paul van Heerwaarden	CEO from 1 February 2017	Group
	Chief Operating Officer to 31 January 2017	Group
	Executive Director	Tatura Milk
	Director	Bemore
Garth Buttimore	General Manager Manufacturing Services	Group
Colin Griffin	Chief Financial Officer	Group
	Executive Director	Tatura Milk
	Director	Bemore
	Non-executive Director	CCFA
David McKinnon	General Manager Human Resources	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, the CEO 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, the CEO and other KMP. The NRHRC provides 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 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 Directors and Executives who will create value for shareholders and that support the Group's wider objectives and strategies

    b. fairly and responsibly remunerates Directors and Executives, having regard to the performance of the Group, the performance of the Executives and the market 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, inclusive of base remuneration, Short-Term Incentive (STI) and the Long-Term Incentive (LTI) at-risk payment for the CEO and the Executive Chairman, 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.

Each KMP has a significant amount of their remuneration directly related to budgeted profit, cash flow, safety and strategic personal objective targets. Stretch targets provide the opportunity for each KMP to derive additional remuneration at risk (RAR) payments, where the achievement of performance criteria has a direct bearing on the earnings of the Group and its potential to reward shareholders.

In reviewing KMP remuneration in FY2017, the General Manager Human Resources sourced current remuneration market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector. The external KMP information was compiled by Godfrey Remuneration Pty Ltd (Godfrey Remuneration) in August 2016 (Godfrey KMP report) and the fee charged was $20,000. Godfrey Remuneration 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.

The Board confirmed that the remuneration recommendations were made free of undue influence by any of the KMP to whom the recommendations relate.

This information was taken into account by the NRHRC in August 2016 to determine base salary adjustments for the Executive Chairman for his executive duties, the CEO and other KMP. The approved base salary adjustments were implemented with effect from 1 September 2016. This information was also taken into account to determine the base salary and incentive remuneration levels for the new CEO, effective upon his appointment on 1 February 2017.

DIRECTORS' REMUNERATION

Directors' remuneration is set by the Board within the maximum aggregate amount of $1,200,000 per annum approved by shareholders at the 2016 Annual General Meeting.

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 Directors 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.

In reviewing the Board fees for FY2017, the General Manager Human Resources sourced current board fee market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector. Godfrey Remuneration provided their independent review of external data relating to board fees in August 2016 (Godfrey Board Report) and the fee charged was $13,500. Godfrey Remuneration 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.

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 market analysis received from Godfrey Remuneration the following Director's fee and committee fee increases took effect from 1 November 2016:

- Director's fees were increased by $2,500 per annum, inclusive of superannuation
- fees for the Audit & Risk Committee were increased by $5,000 for the Chair and $2,500 for Committee members, each inclusive of superannuation
- fees for the NRHRC were increased by $5,500 for the Chair and $2,750 for Committee members, each inclusive of superannuation
- fees for the Milk Services Committee were increased by $3,000 for the Chair and $1,500 for Committee members, each inclusive of superannuation.

During the year there were no changes to the composition of the Board, nor the Chairs and membership of the three Board Committees, being the Audit & Risk Committee, the NRHRC and the Milk Services Committee.

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

	Annual amount including super	
	Rate from 1/7/16 to 31/10/16	Rate as from 1/11/2016
Fees and allowances by role	$	$
Chairman of the Board	180,000	180,000
Director fees	83,000	85,500
Chair of Audit & Risk Committee	15,000	20,000
Audit & Risk Committee member allowance	7,500	10,000
Chair of NRHRC	12,000	17,500
NRHRC member allowance	6,000	8,750
Chair of Milk Services Committee	7,000	10,000
Milk Services Committee member allowance	3,500	5,000

REMUNERATION OF THE EXECUTIVE CHAIRMAN

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 FY2017, 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 the Remuneration Guidelines above.

EXECUTIVE DUTIES

The remuneration of the Executive Chairman for executive duties in FY2017 was set in accordance with the following principles:

- a base salary of $395,000, 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, which was adjusted from 1 September 2016
- the base salary is adjusted 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 2017 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 short-term RAR incentive up to $197,500, that was subject to achievement of agreed performance outcomes, as approved by the NRHRC in November 2016
- a long-term incentive plan up to $197,500, that is subject to the achievement of performance hurdles, as determined by the NRHRC in November 2016.

In relation to the executive duties carried out by the Executive Chairman, the key terms of his employment contract with the Group were 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, or without notice where the termination is "for cause". Forthwith in the event of incapacity or breach of the service agreement by the Executive Chairman 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

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. Aidan Coleman retired from the position of CEO with effect from 31 January 2017. Paul van Heerwaarden was appointed to the position of CEO with effect from 1 February 2017.

The incoming CEO's remuneration was adjusted from 1 September 2016 in his prior role as Chief Operating Officer, and again with effect from 1 February 2017 as CEO, through the same benchmarking and recommendation process referred to under Remuneration Guidelines above.

The following principles apply to the remuneration of Paul van Heerwaarden with effect from his appointment as CEO:

- an annual base salary of $700,000, 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 short-term RAR incentive for FY2017 from the date of appointment of up to $350,000 subject to the achievement of agreed performance outcomes as approved by the Executive Chairman and the NRHRC in November 2016
- a long-term incentive plan up to $350,000 from the date of appointment, that is subject to the achievement of performance hurdles, as determined by the NRHRC in November 2016.

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, or without notice where the termination is "for cause". Forthwith in the event of incapacity or breach of the service agreement by the CEO 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.

The outgoing CEO's remuneration was adjusted with effect from 1 September 2016 through the same benchmarking and recommendation process referred to under the Remuneration Guidelines above.

The following principles apply to the remuneration of the outgoing CEO:

- an annual base salary of $827,305, 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 short-term RAR incentive for FY2017 to retirement date on 31 January 2017 of up to $408,000 subject to the achievement of agreed performance outcomes.

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 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, which is determined as part of the annual remuneration and performance review process, comprises:

- an annual base salary, 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 short-term RAR component subject to the achievement of agreed performance outcomes.

The 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 from 1 September 2016 through the same benchmarking and recommendation process referred to under the Remuneration Guidelines above.

DIRECTORS' REPORT

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 without 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, or without notice where the termination is "for cause". Forthwith in the event of incapacity, breach of the service agreement by the executive without remedy.
Termination by Executive	One year's 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.

INCLUSION OF AT-RISK COMPONENT IN TOTAL REMUNERATION PACKAGE

KMP, other than Non-executive Directors, each have part of their total remuneration at risk. 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 criteria to be applied 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 determining the criteria. Each year the NRHRC makes a recommendation to the Board for approval in respect of the determined criteria for all KMP.

For FY2017 each Executive KMP had a documented performance agreement that set individual performance objectives, described success factors for each objective and identified development opportunities that would help them in their current and future roles.

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

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

Executive KMP whose performance is rated as "under achieved" would not receive a base salary review, nor would they be entitled to any outcome under the RAR program. Whilst actual 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 Group, 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 RAR component of the remuneration for each KMP other than himself. A report and recommendation is then submitted to the NRHRC prior to being submitted to the Board for final review and approval. Board approval is required before the RAR component of the remuneration for each of the KMP is paid.

At the end of the financial year the Executive Chairman assesses the actual performance of the CEO against determined criteria and has access to all relevant information in conducting this assessment. The Executive Chairman also liaises with the Chair of the NRHRC and other Directors before making a recommendation for the outcome of the CEO's RAR component of his remuneration to the NRHRC prior to it being submitted to the Board for final review and approval.

LONG-TERM INCENTIVE PLAN

In prior years, the CEO participated in long-term incentive plans, the most recent of which was the 2012 to 2015 Long-Term Incentive Plan, which included performance hurdles based on earnings per share and return on funds employed. The CEO was not subject to any long-term incentive plan relating to FY2016.

NRHRC's review of remuneration structures during FY2017 assessed whether long-term incentive payments should be reintroduced. As a result of this review the NRHRC has recommended and the Board has agreed to establish a long-term incentive plan as part of the remuneration structure for each of the Executive Chairman and the incoming CEO.

The purpose of the Long-Term Incentive Plans (LTIP's) is to:

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

Provided below are the details of LTIPs for each of the Executive Chairman and the CEO.

LONG-TERM INCENTIVE PLAN – EXECUTIVE CHAIRMAN

The Executive Chairman participates in the 'Executive Chairman's Long-Term Incentive (LTI) Cash Plan 2017 to 2019'.

The Executive Chairman is a substantial shareholder of Bega Cheese and his personal financial interests are already aligned with other shareholders. The opportunity to receive further shares in Bega Cheese under a share-based long-term incentive plan may be seen to provide the Executive Chairman with an opportunity to increase his shareholding in a manner not available to other substantial shareholders.

As such, the Executive Chairman's LTI Cash Plan 2017 to 2019 is to be paid in cash, further details are set out below.

Executive Chairman's LTI Cash Plan 2017 – 2019

Grant Date:	1 July 2016
Vesting Date:	30 June 2019
Potential value of Plan:	$197,500 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below).
Vesting Conditions:	Subject to the leaver provisions referred to below, no payment will be made unless the Executive Chairman remains employed with the Group during the entire performance period from 1 July 2016 to 30 June 2019.
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 50% of the potential value of the Plan 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 growth over the performance period
50% vesting	at 7.5% compound annual growth over the performance period
Pro-rated vesting between 50% and 100%	between 7.5% and 10% compound annual growth over the performance period
100% vesting	at 10% or above compound annual growth over the performance period

Return On Funds Employed (ROFE) Performance Rights

50% of the potential value of the Plan 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 net interest bearing debt.

Vesting percentage	ROFE growth targets
Nil vesting	below 11% over the performance period
50% vesting	at 11% over the performance period
Pro-rated vesting between 50% and 100%	between 11% and 13.5% over the performance period
100% vesting	at 13.5% or above over the performance period

LONG-TERM INCENTIVE PLAN – CHIEF EXECUTIVE OFFICER

The CEO participates in the 'CEO LTI Performance Rights Plan 2017 to 2019'. Given the CEO is not a substantial shareholder in Bega Cheese the Board has agreed that the best way to align the performance of the CEO with the interests of shareholders is for the outcome available under his long-term incentive to be based on performance rights.

The number of performance rights for the CEO LTI Performance Rights Plan 2017 to 2019 is calculated using the 'face value' method. The face value of the performance rights for allocation purposes under the plan is $5.27. This was calculated by taking the five day volume weighted average price of Bega Cheese Limited of $5.62 per share as at 1 July 2016, being the effective date of the CEO's long-term incentive plan, and then deducting the present value of expected dividends forgone over the duration of the Plan (i.e. the dividends not received until the performance rights vest).

CEO LTI Performance Rights Plan 2017 – 2019

Grant Date:	1 July 2016
Vesting Date:	30 June 2019
Number of Performance Rights offered:	66,370
	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 2016 to 30 June 2019.
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 growth over the performance period
50% vesting	at 7.5% compound annual growth over the performance period
Pro-rated vesting between 50% and 100%	between 7.5% and 10% compound annual growth over the performance period
100% vesting	at 10% or above compound annual 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 net interest bearing debt.

Vesting percentage	ROFE growth
Nil vesting	below 11% over the performance period
50% vesting	at 11% over the performance period
Pro-rated vesting between 50% and 100%	between 11% and 13.5% over the performance period
100% vesting	at 13.5% or above over the performance period

Additional Rules Applicable to CEO LTI Performance Rights Plan 2017 to 2019

Dividends and voting rights: There are no voting or dividend rights until the performance rights vest and are automatically exercised and then ordinary shares are held in the Group.

Dividend reinvestment: Additional performance rights are not granted as a result of holding performance rights when dividends are declared by the Group.

Restrictions on Performance Rights: The CEO may not transfer or encumber the performance rights with a security interest without the consent of the Board.

Lapse of Performance Rights: Performance rights that have not vested as at the relevant performance measurement date will automatically lapse, unless otherwise determined by the Board.

All performance rights will also lapse in other circumstances, including, but not limited to, where the CEO has acted fraudulently or dishonestly in the opinion of the Board.

REMUNERATION AT-RISK (RAR) OUTCOME

RAR Gateways

The Executive Chairman, CEO and other Executive KMP are only entitled to outcomes of the RAR Plan if specific gateways are achieved. These gateways ensure that:

- RAR payments are aligned to the Group's key strategic and business objectives
- no at-risk payments would be made unless the Group achieves or exceeds targeted profit (having accrued for the payout of the at-risk program in that year and been considered in light of final milk prices paid by competitors in the year)
- no RAR payments are made if during the year there is a major safety, quality or environmental event that is within the reasonable control of the Group.

Individual gateways also applied to the Executive Chairman, CEO and each other Executive KMP relating to individual performance with additional gateways for the KMP relating to participation in safety, quality and environmental programs. These gateways ensure that:

- no RAR payment would be made unless the individual KMP executed their duties in a proper and effective manner
- no RAR 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.

Executive Chairman

At the commencement of FY2017 the Board determined the RAR key performance indicators (KPIs) for the Executive Chairman with 40% of these KPIs relating to the financial performance of the Group and 60% directly aligned with the executive duties attached to the role of Executive Chairman in executing the Group's strategic plan, in particular strategic business development and KMP succession planning.

The Executive Chairman achieved 100% of personal KPIs which comprised 60% of the RAR Plan and 100% of Group financial performance KPIs. As a result, the Executive Chairman is entitled to 100% of the payment under the approved 2017 RAR Plan.

Chief Executive Officer And Other Key Management Personnel

The RAR component for the CEO and each of the other KMP for FY2017 was determined in accordance with the 2017 RAR Plan approved by the Board.

If Group and individual gateways were both met, the CEO and other KMP could achieve a RAR payment based on the achievement of the normalised Group EBITDA budget and stretch targets (50%), safety (10%), cash flow (10%) and strategic personal objective targets (30%).

The maximum RAR for the outgoing CEO, Aidan Coleman, for FY2017 totalled 85% of his total fixed remuneration pro-rata for seven months to his date of retirement on 31 January 2017.

The maximum RAR for Paul van Heerwaarden for FY2017 was calculated as follows:

- For the period he was Chief Operating Officer (1 July 2016 to 31 January 2017) his maximum RAR totalled 35% of his total fixed Chief Operating Officer remuneration pro-rata for the seven months he was Chief Operating Officer, plus
- For the period he was CEO (1 February 2017 to 30 June 2017) his maximum RAR totalled 50% of his total fixed CEO remuneration pro-rata for the five months he was CEO.

For Colin Griffin the maximum RAR totalled 35% of his total fixed remuneration, and for Garth Buttimore and David McKinnon the maximum RAR totalled 30% of their total fixed remuneration with the following outcomes being achieved:

CEO	Group gateways	Individual gateways	105% Budget EBITDA 50%	OH&S criteria 10%	Free cash flow budget 10%	Personal objectives 30%	Total achieved %	Total forfeited %	Total fixed rem'n 2017 $	Outcome $
Aidan Coleman	√	√	46%	6%	10%	23%	85%	15%	827,305	345,858
Paul van Heerwaarden	√	√	46%	6%	10%	30%	92%	8%	700,000	134,458

KMP	Group gateways	Individual gateways	105% Budget EBITDA 50%	OH&S criteria 10%	Free cash flow budget 10%	Personal objectives 30%	Total achieved %	Total forfeited %	Total fixed rem'n 2017 $	Outcome $
Garth Buttimore	√	√	46%	6%	10%	30%	92%	8%	377,878	104,521
Colin Griffin	√	√	46%	6%	10%	30%	92%	8%	433,922	140,027
Paul van Heerwaarden	√	√	46%	6%	10%	30%	92%	8%	483,135	90,946
David McKinnon	√	√	46%	6%	10%	30%	92%	8%	382,112	105,692

RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

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

Key performance indicator		FY2017 Actual	FY2017 Normalised	FY2016 Actual	FY2016 Normalised	FY2015 Actual	FY2015 Normalised	FY2014 Actual	FY2014 Normalised	FY2013 Actual	FY2017 vs FY2016 Normalised Amount	%
Profit before tax	$'000	198,038	43,155	39,900	40,504	16,434	30,161	93,580	42,124	35,349	2,651	7
Profit after tax	$'000	138,748	30,331	28,779	29,202	12,408	22,017	66,055	29,764	25,445	1,129	4
Dividends per share	Cents	10.0	10.0	9.50	9.50	8.50	8.50	8.50	8.50	7.50	0.5	5
Earnings per share	Cents	90.9	19.9	18.9	19.1	8.1	14.4	43.4	19.6	16.8	0.8	4
Total shareholder return	%	16.70	16.70	32.91	32.91	(9.34)	(9.34)	92.05	92.05	65.94	(16.21)	(49)
KMP total remuneration	$'000	5,415	5,415	4,962	4,962	3,623	3,623	4,879	4,879	4,427	453	9

Total KMP remuneration for FY2017 has increased by 9% from FY2016 which is consistent with the higher level of profit after tax achieved by the Group in the year. Normalised profit after tax increased by 4% over the prior year, the increase in Group performance was mainly due to growth in value added products.

The outcomes above resulted in the RAR gateways opening and achievement of Group and individual RAR outcomes as outlined in the previous tables being up on the prior year.

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) $	Long-term Incentive (2) $	Equity settled performance rights (3) $	All amounts $
Executive Chairman								
Barry Irvin (4)	2017	537,288	197,500	35,425	38,427	65,833	-	874,473
	2016	528,744	100,962	34,889	13,051	-	-	677,646
Executives								
Aidan Coleman (5)	2017	771,566	345,858	23,333	-	-	-	1,140,757
	2016	764,310	595,000	35,000	43,065	-	-	1,437,375
Garth Buttimore	2017	350,731	104,521	32,625	41,149	-	-	529,026
	2016	333,416	96,854	31,675	9,098	-	-	471,043
Colin Griffin	2017	396,557	140,027	35,000	55,123	-	-	626,707
	2016	383,170	129,755	36,401	47,395	-	-	596,721
Paul van Heerwaarden (6)	2017	541,219	225,404	30,000	121,535	-	117,039	1,035,197
	2016	439,435	143,530	30,000	24,701	-	-	637,666
David McKinnon	2017	347,267	105,692	32,990	40,813	-	-	526,762
	2016	341,010	99,052	32,029	22,535	-	-	494,626
Total Executive	2017	2,944,628	1,119,002	189,373	297,047	65,833	117,039	4,732,922
Remuneration	2016	2,790,085	1,165,153	199,994	159,845	-	-	4,315,077
Non-executive Directors								
Richard Cross	2017	84,395	-	8,017	-	-	-	92,412
	2016	80,669	-	7,664	-	-	-	88,333
Peter Margin	2017	109,500	-	-	-	-	-	109,500
	2016	101,833	-	-	-	-	-	101,833
Raelene Murphy	2017	94,064	-	8,936	-	-	-	103,000
	2016	88,889	-	8,445	-	-	-	97,334
Jeff Odgers	2017	85,540	-	8,126	-	-	-	93,666
	2016	81,583	-	7,750	-	-	-	89,333
Richard Parbery	2017	85,692	-	8,141	-	-	-	93,833
	2016	82,039	-	7,794	-	-	-	89,833
Richard Platts	2017	84,395	-	8,017	-	-	-	92,412
	2016	80,669	-	7,664	-	-	-	88,333
Max Roberts	2017	88,504	-	8,408	-	-	-	96,912
	2016	83,866	-	7,967	-	-	-	91,833
Total Non-Executive	2017	632,090	-	49,645	-	-	-	681,735
Remuneration	2016	599,548	-	47,284	-	-	-	646,832
	2017	3,576,718	1,119,002	239,018	297,047	65,833	117,039	5,414,657
	2016	3,389,633	1,165,153	247,278	159,845	-	-	4,961,909

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

(2) Long-term incentive based on the achievement of specified milestones of the Executive Chairman's LTI Plan. The amount reflects the expense for the FY2017 year proportion of the cash incentive due to vest in 2019. Further details of the Executive Chairman's LTI Plan are set out above.

(3) Amounts under share-based payments represent the accounting outcome for LTI Plans calculated in accordance with accounting standards. The amount of $117,039 in FY2017 reflects the valuation of share rights due to vest in 2019. Further details of the CEO's LTI Plan are set out above.

(4) Includes remuneration for Non-executive Chairman responsibilities.

(5) Remuneration figures shown for Aidan Coleman reflect seven months' service as CEO and one month annual leave. Remuneration includes payout of remaining leave entitlements.

(6) Remuneration figures shown for Paul van Heerwaarden reflect seven months' service as the Chief Operating Officer. Mr van Heerwaarden commenced as CEO on 1 February 2017 and the above table reflects five months service in the role. The leave amount includes the expense relating to revaluation of existing leave entitlements held at the time of appointment to the role of CEO.

OTHER MATTERS

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:

2017 - Numbers of ordinary shares	Balance at 1 July 2016	Other changes during the year	Balance at 30 June 2017
Executive Chairman			
Barry Irvin	2,704,984	-	2,704,984
Executives			
Aidan Coleman	220,000	(220,000)	-
Colin Griffin	145,000	-	145,000
Paul van Heerwaarden	45,000	-	45,000
David McKinnon	5,000	4,000	9,000
Non-executive Directors			
Richard Cross	288,154	(15,000)	273,154
Peter Margin	6,500	-	6,500
Raelene Murphy	1,637	-	1,637
Jeff Odgers	163,174	-	163,174
Richard Parbery	2,664,012	-	2,664,012
Richard Platts	3,480,014	(200,000)	3,280,014
Max Roberts	1,555,000	(100,000)	1,455,000

TRANSACTIONS RELATING TO MILK

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

	CONSOLIDATED	
	2017 $	2016 $
Milk payments made by the Bega Cheese Group	8,378,898	9,706,836
Amounts outstanding at year end	542,927	594,670

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 Instrument 2016/191, 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 instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 4 July 2017 Bega Cheese announced that it had completed the acquisition of most of Mondelēz International's Australia and New Zealand grocery and cheese business (MDLZ Grocery Business) and with it some of Australia's most iconic brands including Vegemite, ZoOSh and Bonox. Further details relating to this acquisition are set out in the Executive Chairman's report and the CEO's report.

A Share Purchase Plan Offer (SPP Offer) was opened on 3 July 2017 and closed on 31 July 2017. Under the SPP, each eligible Bega Cheese shareholder was able to subscribe for up to $15,000 of new Bega Cheese shares, without incurring brokerage or transaction costs. The SPP Offer raised $50.2 million and resulted in an additional 9,561,404 ordinary fully paid shares being issued. Further details of the SPP are set out in the Executive Chairman's report and the CEO's report.

On 23 August 2017, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $9.3 million. 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 PricewaterhouseCoopers (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 34.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Sydney

Raelene Murphy
Independent Director
Hobart

23 August 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2017, 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
23 August 2017

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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

CORPORATE GOVERNANCE STATEMENT

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

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 (RECOMMENDATIONS 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.

The 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 aimed at building 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 Group recognises that the wide array of perspectives resulting from a workplace that is diverse in gender, age, ethnicity and cultural background promotes innovation and benefits the Bega Cheese Group shareholders, customers, suppliers and employees.

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

At 30 June 2017, the proportion of women employed by the Group was as follows:

- Board of Directors 13%
- Managers (including senior executives) 21%
- The Bega Cheese Group 29%

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

a. increase the representation of women in management positions to 33%

b. establish personal development plans for all employees reporting to the Executive Team

c. have succession plans in place for all Executive Team positions with a pool of talented successors sufficient to cover the number of Executive positions

d. establish a mentoring program for senior female leaders.

The Bega Cheese Group is making some progress towards achieving the diversity strategy objectives. The representation of women in management positions is currently at 21%. Hiring ratios of employees were 47% female and 53% male in FY2017, and 46% female and 54% male in FY2016, which is expected to lead to an increasing gender diverse talent pipeline for promotion in future years. Documented development plans for direct reports to the Executive Team have been completed and reviewed by the Executive Team in FY2017. The NRHRC reviews succession processes and the leadership succession plan six monthly to ensure that there is appropriate strategy governance and progress to continue to move to a more diverse workforce.

CORPORATE GOVERNANCE STATEMENT

The Bega Cheese Group implemented the following diversity initiatives for FY2017:

- further development and promotion of the organisational values and the leadership behaviours required from leaders
- continuation of Front Line Management Training to train leaders in additional leadership competencies such as driving inclusive behaviours, improving workplace relationships and managing diversity
- reviewed existing recruitment processes to ensure that no process inherent bias exists. Targets were set for external recruiters to present diverse shortlists of candidates. Managers were made aware of the need to comply with the Diversity Policy when undertaking recruitment
- the annual review of the relativities in remuneration levels was conducted from a gender perspective and plans developed to address any anomalies.

A strategic review of the diversity and inclusion strategy was undertaken which resulted in plans for the Bega Cheese Group to implement programs over the next three years to ensure:

- greater diversity of thought, experience and gender exists in managerial positions
- a talent pipeline exists with greater emphasis on career development within the Bega Cheese Group
- that Bega employees reflect the diversity of our customers and that Bega employees are better able to connect and understand them
- continuation of making inroads on gender balance
- that any barriers and mindsets are removed that stop the Bega Cheese Group recruiting and developing the best talent

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 membership of the NRHRC is comprised of one independent Director (Peter Margin) as chair of the Committee and three non-independent Directors (Max Roberts, Richard Platts and Richard Cross). The composition of the NRHRC does not comply with Recommendation 2.1 as the Committee does not 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. 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 five long-standing Supplier Directors, including the Executive Chairman (Barry Irvin), one non-Independent Director (Max Roberts) 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. The Board also recognises that there may be a perception that the length of tenure of the non-Independent Director may influence the decision-making of this Director. Accordingly, while they are able to bring an independent judgment to bear on Board decisions, the Supplier Directors and non-Independent Director 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. 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 effectively perform their role as Directors. 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 (RECOMMENDATION 3.1)

The 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.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

AUDIT & RISK COMMITTEE (ARC) (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 Supplier 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 the Group's compliance with laws and regulations and its own policies

c. ensuring that the relationship between the Group 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 of the Committee. The ARC may invite other persons to attend as required.

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 after FY2018. The external auditor is invited to attend the Bega Cheese Group's Annual General Meeting to be available to answer questions from shareholders relevant to the audit.

FINANCIAL RECORDS (RECOMMENDATION 4.2)

Prior to approving the Group's financial statements for FY2017, 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 their 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)

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

The 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.

The 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.

The 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. The 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 CFO have reported to the Board on the effectiveness of the Bega Cheese Group's management of its material business risks. The 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 the 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 Internal Auditor who has also been assigned key Governance and Assurance responsibilities reports to the Company Secretary with direct engagement with the CFO, CEO and Chair of the ARC.

ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS (RECOMMENDATION 7.4)

The 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 further sustainability report for FY2017, which will be available on the Group's website later this year, this follows on from the FY2016 report which is available on the Group's website www.begacheese.com.au.

Economic Sustainability

Economic sustainability risks for the 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.

The 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. The Bega Cheese Group exercises strong fiscal control through rigorous management of capital and operational budgets. Business cases are developed and reviewed, which include financial modelling and sensitivity analysis for all major projects.

Environmental Sustainability

The 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. The Milk Sustainability and Growth Program concluded in the FY2016 period. A new sustainability program will be introduced in FY2018 providing all suppliers with the opportunity to access information, services training and capital works funding to support their business in investing in farm sustainability.

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 environmental performance of each site are monitored against resource consumption and waste production to deliver continuous improvement across a range of intensity indicators.

Social Sustainability

As a food producer, the Bega Cheese Group's social sustainability risks include matters relating to the safety of the Group's products and workforce as well as the role of the Group in our communities. Consumer safety is a top priority and any breach may 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. The Bega Cheese Group also has a talent matrix to develop staff which complements a health and well-being program to help make the Group 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 the 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 and as a result, the Group 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 Rural Clinical School, Australian National University College of Medicine, Biology and Environment. 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 as the Committee does not 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

	Notes	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
Revenue	5	1,226,663	1,195,967
Cost of sales		(1,072,436)	(1,042,595)
Gross profit		**154,227**	**153,372**
Other revenue	5	6,490	6,032
Other income	5	1,027	1,415
Gain on sale of infant nutritional assets		177,833	-
Distribution expense		(53,979)	(49,781)
Marketing expense		(13,002)	(11,166)
Occupancy expense		(3,091)	(3,582)
Administration expense		(54,231)	(53,328)
Transaction costs relating to acquisition	28b	(11,518)	-
Impairment of assets	6	(3,347)	-
Finance costs	6	(3,226)	(3,835)
Share of net profit of joint venture	24	855	773
Profit before income tax		**198,038**	**39,900**
Income tax expense	7a	(59,290)	(11,121)
Profit for the year attributable to owners of Bega Cheese Limited		**138,748**	**28,779**
Other comprehensive (expense)/income:			
Items that may be reclassified to profit or loss			
Cash flow hedges		376	311
Change in the fair value of other financial assets		105	(184)
Total other comprehensive income		**481**	**127**
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		**139,229**	**28,906**

		2017 Cents	**2016 Cents**
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share	3	90.9	18.9
Diluted earnings per share	3	90.8	18.9

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

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	475,533	9,658
Trade and other receivables	8	168,536	143,673
Derivative financial instruments	9	1,546	545
Inventories	10	167,898	192,398
Current tax assets		4,959	-
Total current assets		**818,472**	**346,274**
Non-current assets			
Other financial assets	9	879	729
Property, plant and equipment	11	196,799	219,944
Deferred tax assets	7e	16,172	10,329
Intangible assets	12	22,650	7,903
Investments accounted for using the equity method	24	1,288	1,495
Total non-current assets		**237,788**	**240,400**
Total assets		**1,056,260**	**586,674**
LIABILITIES			
Current liabilities			
Trade and other payables	13	169,324	156,044
Derivative financial instruments	15	408	1,583
Borrowings	14	64	15,235
Current tax liabilities		63,911	5,056
Provisions	16	32,877	31,335
Total current liabilities		**266,584**	**209,253**
Non-current liabilities			
Borrowings	14	215,280	47,500
Provisions	16	1,722	2,083
Total non-current liabilities		**217,002**	**49,583**
Total liabilities		**483,586**	**258,836**
Net assets		**572,674**	**327,838**
EQUITY			
Share capital	17a	224,692	103,942
Reserves	18a	21,656	21,058
Retained earnings		326,326	202,838
Capital and reserves attributable to owners of Bega Cheese Limited		**572,674**	**327,838**
Total equity		**572,674**	**327,838**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Share capital $'000	Share-based payment reserve $'000	Capital profits reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Transactions with non-controlling interests $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2015	103,942	94	33,959	(555)	-	(12,567)	187,793	312,666
Profit for the year	-	-	-	-	-	-	28,779	28,779
Other comprehensive income for the year	-	-	-	311	(184)	-	-	127
Transactions with owners in their capacity as owners:								
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(13,734)	(13,734)
Balance as at 30 June 2016	**103,942**	**94**	**33,959**	**(244)**	**(184)**	**(12,567)**	**202,838**	**327,838**
Balance as at 1 July 2016	**103,942**	**94**	**33,959**	**(244)**	**(184)**	**(12,567)**	**202,838**	**327,838**
Profit for the year	-	-	-	-	-	-	138,748	138,748
Other comprehensive income for the year	-	-	-	376	105	-	-	481
Transactions with owners in their capacity as owners:								
- Issue of shares, net of transaction costs and tax (note 17)	120,750	-	-	-	-	-	-	120,750
- Share-based payments relating to incentives (note 31)	-	117	-	-	-	-	-	117
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(15,260)	(15,260)
Balance as at 30 June 2017	**224,692**	**211**	**33,959**	**132**	**(79)**	**(12,567)**	**326,326**	**572,674**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,274,872	1,241,063
Payments to suppliers and employees inclusive of goods and services tax		(1,203,845)	(1,174,917)
Interest and other costs of financing paid		(3,226)	(3,835)
Income taxes paid	7f	(10,727)	(3,331)
Net cash inflow from operating activities	19	**57,074**	**58,980**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		437	239
Dividend received		15	5
Payments for property, plant and equipment	11	(26,568)	(33,956)
Payments for intangible assets	12	(12,611)	(5,733)
Payments for shares in listed companies		-	(992)
Net proceeds from sale of property, plant and equipment		188,921	428
Joint venture distributions received	24	1,063	375
Net cash inflow/(outflow) from investing activities		**151,257**	**(39,634)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		198,280	14,000
Repayment of borrowings		(45,671)	(20,238)
Net proceeds from issue of shares		120,195	-
Dividends paid to members		(15,260)	(13,734)
Net cash inflow/(outflow) from financing activities		**257,544**	**(19,972)**
Net increase/(decrease) in cash and cash equivalents		**465,875**	**(626)**
Cash and cash equivalents at the beginning of the year		9,658	10,284
Cash and cash equivalents at the end of the year	19	**475,533**	**9,658**

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

HOW NUMBERS ARE CALCULATED

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

A. INFANT NUTRITIONALS BUSINESS

On 25 October 2016 the Group announced significant headwinds in its life stage nutritional powders business as the market rebalanced and customers remained cautious as to the impact of regulation changes in China. The change in market circumstances has resulted in sales not materialising at levels that were initially forecasted.

As such the Group has incurred inventory losses amounting to $8.1 million and will continue to keep the business under review.

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Impact on cost of sales and EBITDA	(8,085)	-
Impact on income tax expense	2,425	-
Impact on profit for the year	**(5,660)**	**-**

B. ACQUISITION OF MDLZ GROCERY BUSINESS (BEGA FOODS)

On 19 January 2017 the Bega Cheese Group announced that it had entered into a binding agreement to acquire Mondelēz International's Australia and New Zealand grocery and cheese business (MDLZ Grocery Business, renamed after the Bega Cheese Group secured control to Bega Foods) for $460 million. The acquisition successfully completed on 4 July 2017.

The acquisition includes property, plant and equipment, inventory, intangible assets, goodwill and employee entitlements for transferring employees. A number of material one-off acquisition costs (including corporate advisory, legal, valuations and other services) and transition costs (project management, human resources management, logistics services and management information systems) were incurred up to 30 June 2017 in completing the acquisition of the MDLZ Grocery Business. Other one-off acquisition costs (including stamp duty) were incurred after 30 June 2017.

The final acquisition price of $456 million was settled on 4 July 2017 and was funded by a combination of the following:

i. partial drawdown from the $300 million additional business acquisition related debt facilities provided by the Group's existing lenders under an amendment to the existing Syndicated Facilities

ii. proceeds of $190 million (before transaction costs) received by 30 June 2017 from the sale of infant nutritional assets to Mead Johnson Nutrition (Australia) Pty Ltd (Mead Johnson)

iii. proceeds of $122.5 million (before transaction costs) received by 30 June 2017 on successful completion of the capital raising via the Institutional Placement.

The acquisition of the MDLZ Grocery Business represents a material subsequent event for the Group and further financial and other details relating to this transaction are set out in note 28.

C. MEAD JOHNSON LONG-TERM PARTNERSHIP AND SALE OF SPRAY DRYING AND FINISHING FACILITIES

On 27 February 2017 the Bega Cheese Group announced it had agreed to enter into a long-term partnership with, and to sell one of its spray dryers at Tatura (Tatura dryer) and its infant formula finishing plant at Derrimut (Derrimut Facility), to Mead Johnson for $200 million (Mead Johnson Deal), which was completed on 24 April 2017. The Group received $180 million on completion, a further $10 million on 1 June 2017, leaving a balance of $10 million which is due to be paid to the Group no later than 31 December 2017.

As a part of the Mead Johnson Deal, the Group will benefit from:

i. 10-year service agreements, under which the Group will be paid management and other fees to operate each of the Tatura dryer and the Derrimut Facility on behalf of, and in accordance with the requirements of, Mead Johnson to ensure these facilities continue to provide Mead Johnson reliable supply of quality products during this period

ii. 10-year access agreements, under which the Group will be able to access the Tatura dryer and the Derrimut Facility for a predetermined number of days each year to use in manufacturing its own bulk infant formula or other dairy solids and finished canned infant formula products to supply other customers, as well as Mead Johnson

iii. The Group will meet the actual operating costs of the Tatura dryer and the Derrimut Facility whilst using those facilities for its own business but will not pay additional costs for accessing these facilities for the predetermined number of days each year

iv. providing its expertise to Mead Johnson in specialised infant formula manufacturing know-how, unique formulations and sourcing of specific ingredients for specialised finished infant formula products in exchange for predetermined facilitation fees and a manufacturing margin.

The Mead Johnson Deal was initially established and legal effect was delivered through a detailed Master Agreement between Mead Johnson and the Bega Cheese Group (Master Agreement). The Master Agreement was signed on 24 April 2017 and covers all of the key legal, commercial and operational terms of the Mead Johnson Deal. The parties intend to further develop the legal structure of the alliance over time by entering into a series of additional contracts that carry forward key terms already agreed and documented in the Master Agreement.

The Mead Johnson Deal resulted in a material one-off gain on sale of the Tatura dryer and Derrimut Facility assets to Mead Johnson. This material one-off gain on sale resulted in a substantial one-off tax expense, (which was brought to account in the FY2017 tax year and will be paid in quarter three of FY2018) and a number of one-off corporate transaction costs (corporate advisory, legal and advisory).

Details of the Mead Johnson Deal are set out below:

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Sale consideration	200,000	-
Carrying value of non-current assets	(20,977)	-
Transaction costs	(1,190)	-
Gain on sale of non-current assets	177,833	-
Impact on profit before income tax	**177,833**	-
Impact on income tax expense	(53,350)	-
Impact on profit for the year	**124,483**	-
Impact on cash flows for the year:		
Sale consideration	200,000	-
Less: Deferred settlement due December 2017	(10,000)	-
Gross cash consideration	190,000	-
Transaction costs	(1,190)	-
Impact on cash flows for the year	**188,810**	**-**

D. INSTITUTIONAL PLACEMENT AND SHARE PURCHASE PLAN

On 23 June 2017 the Bega Cheese Group announced a non-underwritten institutional share placement to raise approximately $122.5 million (Institutional Placement), followed by an offer to all existing eligible Australian and New Zealand shareholders to participate in a non-underwritten Share Purchase Plan (SPP) to raise approximately $37.5 million (subject to uptake by existing eligible shareholders).

The proceeds from the Institutional Placement and the SPP were used to fund the acquisition of the MDLZ Grocery Business and improve the Group's financial flexibility to take advantage of future growth opportunities in dairy and food.

INSTITUTIONAL PLACEMENT

The non-underwritten Institutional Placement concluded prior to 30 June 2017, and was undertaken as follows:

- the Institutional Placement Offer represented approximately 15% of Bega Cheese Group's issued capital
- the Institutional Placement Offer issue price was $5.35 per share
- the issue price represented a 10.1% discount to Bega Cheese Limited's closing price of $5.95 on 22 June 2017.

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Shares issued under Institutional Placement	122,464	-
Share issue transaction costs, net of tax	(1,714)	-
Impact on equity for the year	**120,750**	-
Impact on cash flows for the year before tax	**120,195**	-

The impact on share capital is set out in note 17.

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD (CONT.)

SHARE PURCHASE PLAN

The non-underwritten Share Purchase Plan (SPP) was undertaken subsequent to 30 June 2017 as follows:

- each eligible Bega Cheese Limited shareholder as at 22 June 2017 was offered the opportunity to subscribe for up to $15,000 of new Bega Cheese Limited shares
- the issue price of the new Bega Cheese Limited shares under the SPP was $5.25, being a $0.10 discount to the issue price under the Institutional Placement Offer and 10.4% discount to the 5-day volume weighted average price (16 - 22 June 2017) of $5.86.
- new Bega Cheese Limited shares issued under the SPP rank equally with the existing Bega Cheese Limited shares
- following the issuing of 9,561,404 new Bega Cheese Limited shares under the SPP on 8 August 2017 the Bega Cheese Group had a total of 185,054,790 ordinary shares on issue.

The issuing of shares under the SPP was not completed until after 30 June 2017 and as such represents a material subsequent event for the Group. Other financial details relating to this post balance date event are set out in note 28.

E. IMPAIRMENT OF ASSETS

Management completed a review of assets for impairment testing purposes considering the potential impact of number of matters that have arisen in the last 12 months in assessing the book value of assets at 30 June 2017 as follows:

- prior to entering into the MJN Alliance, the Group had been investing in a D90 whey dryer and a lactoferrin plant (to service the Group's own infant nutritionals business) which were suspended as a result of the Group's decision to enter into the MJN Alliance, incurring an asset impairment totalling $2,515,000
- prior to the purchase of the MDLZ Grocery Business, the Group had been developing other management information systems that complement our enterprise resource planning (ERP) system which are not suitable for the MDLZ Grocery Business, resulting in an intangible asset impairment totalling $832,000.

The impairments are included in notes 6, 11 and 12.

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 2017 is as follows:

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2017				
Revenue	808,507	467,377	(49,221)	1,226,663
EBITDA	10,830	218,020	-	228,850
Depreciation, amortisation and impairment	(17,793)	(10,230)	-	(28,023)
EBIT	(6,963)	207,790	-	200,827
Interest revenue	89	727	(379)	437
Interest expense	(2,965)	(640)	379	(3,226)
Profit before income tax	**(9,839)**	**207,877**	**-**	**198,038**
Income tax expense	4,663	(63,953)	-	(59,290)
Profit for the year	**(5,176)**	**143,924**	**-**	**138,748**
Total segment assets	930,083	434,844	(308,667)	1,056,260
Total segment liabilities	586,781	128,533	(231,728)	483,586
Purchases of property, plant and equipment	13,843	11,426	-	25,269
Purchases of intangibles	15,579	-	-	15,579
Impact of current year events on profit before income tax (note 1)				
Inventory losses	-	(8,085)	-	(8,085)
Gain on sale of assets to Mead Johnson	-	177,833	-	177,833
Bega Foods transaction acquisition costs	(11,518)	-	-	(11,518)
Impairment of assets	(3,347)	-	-	(3,347)

	Bega Cheese $'000	Tatura Milk $'000	Group Eliminations $'000	Group Total $'000
Year ending 30 June 2016				
Revenue	759,164	479,014	(42,211)	1,195,967
EBITDA	31,243	34,162	-	65,405
Depreciation, amortisation and impairment	(11,944)	(9,965)	-	(21,909)
EBIT	19,299	24,197	-	43,496
Interest revenue	288	155	(204)	239
Interest expense	(2,170)	(1,869)	204	(3,835)
Profit before income tax	**17,417**	**22,483**	**-**	**39,900**
Income tax expense	(4,487)	(6,634)	-	(11,121)
Profit for the year	**12,930**	**15,849**	**-**	**28,779**
Total segment assets	405,585	266,444	(85,355)	586,674
Total segment liabilities	162,819	103,833	(7,816)	258,836
Purchases of property, plant and equipment	20,915	13,041	-	33,956
Purchases of intangibles	5,733	-	-	5,733
Impact of current year events on profit before income tax				
Milk Sustainability and Growth Program	(717)	113	-	(604)

2. SEGMENT INFORMATION (CONT.)

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	
	2017 $'000	**2016** $'000
Sales to external customers in Australia		
Bega Cheese	665,035	632,080
Tatura Milk	232,806	261,123
Total sales to external customers in Australia	897,841	893,203
Sales to external customers in other countries		
Bega Cheese	133,815	116,657
Tatura Milk	195,007	186,107
Total sales to external customers in other countries	328,822	302,764
Total sales to external customers	**1,226,663**	**1,195,967**

Revenues of approximately $483,512,000 (2016: $564,092,000) are concentrated in a small number of external customers.

Segment sales by category are as follows:

	Bega Cheese $'000	**Tatura Milk** $'000	**Group Eliminations** $'000	**Group Total** $'000
Year ending 30 June 2017				
Core dairy ingredients	65,043	282,294	(49,221)	298,116
Consumer packaged goods	743,464	-	-	743,464
Nutritionals	-	185,083	-	185,083
Sales by product	**808,507**	**467,377**	**(49,221)**	**1,226,663**
Year ending 30 June 2016				
Core dairy ingredients	50,616	259,328	(42,211)	267,733
Consumer packaged goods	708,548	-	-	708,548
Nutritionals	-	219,686	-	219,686
Sales by product	**759,164**	**479,014**	**(42,211)**	**1,195,967**

ii. EBITDA

The Board of Directors assesses 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 normalised business performance is assessed.

iii. Segment assets and liabilities

The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of 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	
	2017 Cents	**2016** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	90.9	18.9
Diluted earnings per share	90.8	18.9

	2017 Number	**2016** Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	152,665,659	152,602,945
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	66,370	-
Shares used as the denominator in calculating diluted earnings per share	152,732,029	152,602,945

	2017 $'000	**2016** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	138,748	28,779

4. DIVIDENDS TO SHAREHOLDERS

	COMPANY	
	Full year 2017 $'000	**Full year 2016** $'000
Recognised amounts:		
2017 Interim dividend of 5.00 cents	7,630	-
2016 Final dividend of 5.00 cents	7,630	-
2016 Interim dividend of 4.50 cents	-	6,867
2015 Final dividend of 4.50 cents	-	6,867
Total dividend	**15,260**	**13,734**
Unrecognised amounts:		
2017 Final dividend of 5.00 cents	9,253	-
2016 Final dividend of 5.00 cents	-	7,630

The dividends paid in 2017 and 2016 were fully franked. The 2017 final dividend will be fully franked.

	CONSOLIDATED		COMPANY	
	2017 $'000	**2016** $'000	**2017** $'000	**2016** $'000
Value of the dividend franking account	91,317	35,992	14,882	24,787

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 and debits that will arise from the settlement of liabilities or receivables for income tax.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of the subsidiary were paid as dividends.

5. REVENUE AND OTHER INCOME

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Sales of goods	1,211,894	1,181,696
Services	14,769	14,271
Total revenue	**1,226,663**	**1,195,967**
Other revenue		
Royalties	5,120	5,173
Sundry contract income	672	394
Dividends	15	5
Rental revenue	683	460
Total other revenue	**6,490**	**6,032**
Other income		
Interest income	437	239
Other	590	1,176
Total other income	**1,027**	**1,415**

6. EXPENSES

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Loss on disposal of property, plant and equipment (excluding the Mead Johnson Deal)	126	952
Operating lease minimum lease payments	1,992	1,764
Increase/(decrease) in inventory provisions	4,981	(1,461)
Increase of bad and doubtful debts	256	-
Depreciation of non-current assets	24,676	22,282
Impairment of property, plant and equipment	2,515	-
Impairment/(write-back) of intangible assets	832	(373)
Employee benefit expense:		
- Defined contribution superannuation expense	13,480	12,950
- Other employee benefits expense	160,231	155,904
Total employee benefit expense	**173,711**	**168,854**
Finance costs:		
- Interest on bank loans	2,542	3,706
- Other finance costs	684	129
Total finance costs	**3,226**	**3,835**

7. INCOME TAX

	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
A. INCOME TAX EXPENSE		
Current tax (expense)	(65,152)	(10,452)
Deferred tax benefit/(expense) from the origination and reversal of temporary differences	5,496	(847)
Adjustments recognised in the current year in relation to tax of prior years	366	178
Total income tax expense	**(59,290)**	**(11,121)**

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 2017 $'000	CONSOLIDATED 2016 $'000
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	198,038	39,900
Tax (expense) at the Australian tax rate of 30% (2016 - 30%)	(59,411)	(11,970)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	-	148
Non-deductible expenses	(422)	(47)
Other assessable income	-	(1)
Other deductible expenses	4	165
	(418)	265
Tax incentives	703	406
Adjustments in respect of prior year	366	178
Impact of change in accounting policy (note 32g)	(530)	-
Total income tax expense	**(59,290)**	**(11,121)**

	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'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	(45)	79
Movement in hedging reserve	(161)	(133)
Total amount recognised through other comprehensive income	**(206)**	**(54)**

	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
D. AMOUNTS RECOGNISED THROUGH EQUITY		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but through equity in respect of:		
Share issue costs	553	-
Total amount recognised through equity	**553**	**-**

7. INCOME TAX (CONT.)

E. 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
Year ending 30 June 2017				
Deferred tax assets				
Borrowing costs	4	(4)	-	-
Doubtful debts	-	78	-	78
Inventories	1,719	3,483	-	5,202
Sundry accrued expenses	316	703	-	1,019
Black hole expenditure	-	1,984	-	1,984
Employee provisions	10,027	354	-	10,381
Share issue costs	-	(111)	553	442
Available for sale financial assets	79	-	(45)	34
Total deferred tax assets	12,145	6,487	508	19,140
Deferred tax (liabilities)				
Property, plant and equipment	(1,383)	(276)	-	(1,659)
Intangible assets	-	(530)	-	(530)
Fair value of derivatives	(110)	122	(161)	(149)
Other	(323)	(307)	-	(630)
Total deferred tax (liabilities)	(1,816)	(991)	(161)	(2,968)
Total deferred tax	**10,329**	**5,496**	**347**	**16,172**

Period ending 30 June 2016				
Deferred tax assets				
Borrowing costs	9	(5)	-	4
Inventories	1,720	(1)	-	1,719
Sundry accrued expenses	1,115	(799)	-	316
Employee provisions	8,926	1,101	-	10,027
Share issue costs	505	(505)	-	-
Fair value of derivatives	60	(37)	(23)	-
Available for sale financial assets	-	-	79	79
Total deferred tax assets	12,335	(246)	56	12,145
Deferred tax (liabilities)				
Property, plant and equipment	(1,105)	(278)	-	(1,383)
Fair value of derivatives	-	-	(110)	(110)
Other	-	(323)	-	(323)
Total deferred tax (liabilities)	(1,105)	(601)	(110)	(1,816)
Total deferred tax	**11,230**	**(847)**	**(54)**	**10,329**

	CONSOLIDATED	
	2017 $'000	**2016** $'000
F. INCOME TAXES PAID		
Income taxes paid are included in the Consolidated Statement of Cash Flows as follows:		
Income taxes (paid) included in operating activities	(10,727)	(3,331)
Total income taxes (paid)	**(10,727)**	**(3,331)**

8. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Trade receivables	141,796	133,469
Allowance for impairment of receivables	(256)	-
	141,540	133,469
Goods and services tax (GST) receivable	7,929	6,280
Prepayments	5,389	1,322
Accrued revenue	748	812
Other debtors	10,127	184
Advances for vat loans	57	220
Advances to suppliers	2,746	1,386
Total trade and other receivables	**168,536**	**143,673**

The average credit period for trade debtors is 30 days. No interest is generally charged on overdue debts. 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.

Other debtors includes $10 million due from Mead Johnson in December 2017 (see note 1c).

Advances for vat loans are made to suppliers to assist with the purchase of on farm milk storage vats. Interest is charged at 4.95% (2016: 5.45%). 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 7.25% (2016: 7.26%).

9. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Current assets		
Fair value of derivatives	1,546	545
Total current derivative financial instruments	1,546	545
Non-current assets		
Available for sale financial assets - listed equity securities	879	729
Total non-current financial assets	879	729
Total financial assets	**2,425**	**1,274**

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	
	2017 $'000	**2016** $'000
Raw materials	103,736	116,028
Finished goods	64,162	76,370
Carrying amount of inventories at lower of cost or net realisable value	**167,898**	**192,398**

The write-down of inventories to net realisable value requires critical judgement in assessing future commodity prices, other market conditions, such as disruption in the nutritional markets, product shelf life and provisions for quality. Details of changes in inventory provisions are included in note 6.

11. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Land and buildings		
At cost	87,036	104,106
Accumulated depreciation	(30,193)	(36,795)
Total land and buildings	56,843	67,311
Plant and equipment		
At cost	393,837	386,780
Accumulated depreciation	(261,912)	(260,547)
Total plant and equipment	131,925	126,233
Leased assets		
At cost	4,856	4,856
Accumulated depreciation	(4,856)	(4,856)
Total leased assets	-	-
Construction in progress	8,031	26,400
Total property, plant and equipment	**196,799**	**219,944**

The movements in property, plant and equipment are:

Consolidated	**Construction in progress** $'000	**Land and buildings** $'000	**Plant and equipment** $'000	**Total** $'000
Year ending 30 June 2017				
Balance at the beginning of the financial period	26,400	67,311	126,233	219,944
Capital expenditure	25,269	-	-	25,269
Reclassification	-	(7,305)	7,305	-
Disposals	-	(2,095)	(19,128)	(21,223)
Depreciation	-	(2,717)	(21,959)	(24,676)
Impairment	(2,515)	-	-	(2,515)
Transfers	(41,123)	1,649	39,474	-
Balance at the end of the financial period	**8,031**	**56,843**	**131,925**	**196,799**
Year ending 30 June 2016				
Balance at the beginning of the financial period	14,969	65,882	128,855	209,706
Capital expenditure	33,956	-	-	33,956
Disposals	-	(28)	(1,408)	(1,436)
Depreciation	-	(3,278)	(19,004)	(22,282)
Transfers	(22,525)	4,735	17,790	-
Balance at the end of the financial period	**26,400**	**67,311**	**126,233**	**219,944**

12. INTANGIBLE ASSETS

	CONSOLIDATED	
	2017	**2016**
	$'000	$'000
Brand	405	405
Water rights	1,765	1,765
Headwork utilities rights	956	-
Software under development	19,524	5,733
Total intangible assets	**22,650**	**7,903**
Movement in intangible assets:		
Balance at the beginning of the financial period	7,903	1,797
Additions - Software under development	14,623	5,733
Additions - Headwork utilities rights	956	-
Impairment of software under development	(832)	-
Write-back of water rights	-	373
Balance at the end of the financial period	**22,650**	**7,903**

Brand comprises the “Melbourne” brand for packing and distribution of cheese products under this label. The brand is considered to have an indefinite life due to the product life cycle and current market demand. Impairment was 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.

The headwork utilities rights relate to access rights the Group will receive from the Bega Valley Shire Council upon completion of their extension of the municipal wastewater system at the two Bega Cheese sites in NSW.

Software under development consists of capitalised development costs and will be transferred to software and amortised once the asset is ready for use in its intended form.

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2017	**2016**
	$'000	$'000
Trade payables	134,681	134,276
Deferred income	1,246	2,583
Accrued charges and sundry creditors	33,397	19,185
Total trade and other payables	**169,324**	**156,044**

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. From time to time there may be differences of opinion between the Bega Cheese Group and the customer as to the amount payable under the contracts. Such differences are usually resolved amicably between the parties having regard to the relevant contract. Where such differences are unresolved at reporting dates the Bega Cheese Group seeks additional information and professional advice in the context of the relevant contract in forming a view as to the amount to be accrued for at the reporting date.

Accrued charges and sundry creditors include transition costs payable relating to the Bega Foods acquisition and Institutional Placement capital raising described in note 1.

14. BORROWINGS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current - at amortised cost		
Secured term loans	64	15,235
Total current borrowings	64	15,235
Non-current - at amortised cost		
Secured term loans	217,000	47,500
Borrowing costs	(1,720)	-
Total non-current borrowings	215,280	47,500
Total borrowings	**215,344**	**62,735**

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

15. DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current liabilities		
Fair value of derivatives	408	1,583
Total derivative financial instruments - liabilities	**408**	**1,583**

For further details on derivatives, see note 21.

16. PROVISIONS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current liabilities		
Employee benefits	32,877	31,335
Total current provisions	32,877	31,335
Non-current liabilities		
Employee benefits	1,722	2,083
Total non-current provisions	1,722	2,083
Total provisions	**34,599**	**33,418**

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 $32,877,000 (2016: $31,335,000) 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	
	2017 $'000	2016 $'000
Current leave obligations expected to be settled after 12 months	6,253	5,594

17. SHARE CAPITAL

A. SHARE CAPITAL

	CONSOLIDATED	
	2017	**2016**
	$'000	$'000
Share capital - ordinary shares fully paid	**224,692**	**103,942**

B. MOVEMENT IN SHARE CAPITAL VALUE AND NUMBER OF SHARES

The movement is set out in the following table:

	Ordinary shares	**Ordinary shares**
	Number '000	$'000
Ordinary shares on issue at 1 July 2015	152,603	103,942
Movements	-	-
Ordinary shares on issue at 30 June 2016	152,603	103,942
Ordinary shares on issue at 1 July 2016	152,603	103,942
Shares issued under Institutional Placement (note 1d)	22,890	122,464
Share issue transaction costs, net of tax (note 1d)	-	(1,714)
Ordinary shares on issue at 30 June 2017	175,493	224,692

Ordinary shares entitle the holder to participate in dividends and share in the proceeds of winding up the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person, or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

18. RESERVES

A. RESERVES

	CONSOLIDATED	
	2017	**2016**
	$'000	$'000
Share-based payment reserve	211	94
Capital profits reserve	33,959	33,959
Hedging reserve	132	(244)
Fair value reserve	(79)	(184)
Transactions with non-controlling interests reserve	(12,567)	(12,567)
Total reserves	**21,656**	**21,058**

B. NATURE AND PURPOSE OF RESERVES

The share-based payment reserve is used to recognise the fair value of shares and performance rights issued to employees by the Company.

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 32.

The available for sale reserve is used to record gains or losses on fair value movements on investments classified as available for sale (e.g. listed equities).

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

	CONSOLIDATED	
	2017	2016
	$'000	$'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	475,533	9,658
Balance per statement of cash flows	**475,533**	**9,658**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	138,748	28,779
Adjustments for non-cash, investing and financing items:		
Depreciation of non-current assets	24,676	22,282
(Gain)/loss on sale of property, plant and equipment	(177,707)	952
Income taxes payable on sale of property, plant and equipment	53,350	-
Impairment of property, plant and equipment	2,515	-
Impairment/(write-back) of intangible assets	832	(373)
Non-cash employee expense - share-based payments	117	-
Fair value adjustment to derivatives	(1,639)	1,457
Interest income received and receivable	(437)	(239)
Dividend received and receivable	(15)	(5)
Share of net profit of joint venture	(855)	(773)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables and GST recoverable	(10,795)	(25,075)
Inventories	24,500	2,491
Prepayments	(4,067)	910
Current and deferred tax assets	(10,455)	3,842
Increase in liabilities:		
Trade and other payables	11,620	16,963
Current tax liabilities excluding taxation on investments	5,505	3,870
Provisions	1,181	3,899
Net cash inflow from operating activities	**57,074**	**58,980**

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 10 – inventories, note 8 - trade and other receivables 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 approach focusses 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. Treasury identifies, evaluates and hedges 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. The Group also makes purchases including capital equipment, ingredients and packaging that exposes it to movements in exchange rates of US dollar, NZD 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 execution of contracts. The Group's exposure to foreign exchange risk at the end of the reporting period is expressed in Australian dollars and was as follows:

	CONSOLIDATED									
	USD	**JPY**	**EUR**	**NZD**	**CNY**	**USD**	**JPY**	**EUR**	**NZD**	**CNY**
	2017	**2017**	**2017**	**2017**	**2017**	**2016**	**2016**	**2016**	**2016**	**2016**
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Trade receivables	**22,757**	**-**	**588**	**224**	**-**	**19,429**	**-**	**556**	**252**	**31**
Trade payables	**2,270**	**-**	**80**	**5,702**	**-**	**3,689**	**-**	**1,029**	**-**	**-**
Forward exchange contracts										
Buy foreign currency (fair value hedges)	13,549	-	4,776	19,531	-	34,179	-	18,913	-	-
Sell foreign currency (cashflow hedges)	27,882	-	-	-	-	30,777	1,871	584	-	-
Sell foreign currency (fair value hedges)	17,503	1,591	575	1,148	-	17,684	-	-	1,362	-

21. FINANCIAL RISK MANAGEMENT (CONT.)

Group sensitivity

This is based on the financial instruments held on 30 June 2017, had the Australian dollar strengthened or weakened by 10% against the US dollar, Euro, NZD and Japanese Yen, with all other variables held constant. The analysis is performed on the same basis for 2016 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	
	2017 $'000	**2016** $'000
Equity		
AUD$ strengthens 10% - increase/(decrease)	1,704	1,935
AUD$ weakens 10% - (decrease)/ increase	(2,077)	(2,364)

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 interest rate swaps to manage interest rate risk. Due to the historically low level of borrowings, a low market rate and significantly changed facility agreements, there were no interest rate swaps in place at 30 June 2016 or 2017 but the use of interest rate swaps is regularly monitored and reviewed as to their effectiveness by the Group. All borrowings were denominated in Australian dollars during 2017 and 2016.

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

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Fixed rate instruments		
Assets		
Vat and supplier loans	2,803	1,606
Liabilities		
Bank overdrafts and loans	(64)	(235)
Variable rate instruments		
Assets		
Cash and cash equivalents	475,533	9,658
Liabilities		
Bank overdrafts and loans	(215,280)	(62,500)
Net exposure to interest rate risk on variable rate instruments	**260,253**	**(52,842)**

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

Interest rate sensitivity

At 30 June 2017, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's post-tax profit for the year would have been $1,810,000 lower/(higher) (2016: $370,000 higher/(lower).

Price risk

The Group is exposed to equity securities price risk arising from investments held by the Group in listed entities. The Group manages its price risk by reviewing the risk across the operations of the whole Group in context of the different areas the business operates in.

At 30 June 2017, if the share price increased / (decreased) by +/- 10% from the year end prices with all other variables held constant, the Group's shareholders' equity for the year would have been $61,500 higher/(lower) (2016: $51,000 higher/(lower)).

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 Group obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Cash and cash equivalents	475,533	9,658
Trade receivables	141,540	133,469
Accrued revenue	748	812
Other receivables	18,056	6,464
Vat loans to farmers	57	220
Advances to farmers	2,746	1,386
Fair value derivatives	1,546	545
Total credit risk exposure	**640,226**	**152,554**

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 agencies.

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	
	2017 $'000	**2016** $'000
Not past due	131,529	118,883
Past due 0-30 days	4,181	11,722
Past due over 30 days	6,086	2,864
Trade receivables at 30 June	**141,796**	**133,469**

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

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	
	2017 $'000	**2016** $'000
Undrawn facilities expiring within one year	76,436	67,765
Undrawn facilities expiring beyond one year	169,500	32,500
Drawn facilities	217,064	62,735
Total facilities	**463,000**	**163,000**
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	70,000	70,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	10,000	10,000
Syndicated Facility - 2 year Revolving Cash Advance Facility	200,000	-
Syndicated Facility - 3 year Term Facility	100,000	-
Inventory Facility	75,000	75,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	1,500	1,500
Total facilities	**463,000**	**163,000**

The Group financing arrangements include a syndicated facility structure funded by Coöperatieve Rabobank U.A. (Australia Branch) and Westpac Banking Corporation. The Syndicated Facility includes three revolving cash advance facilities totalling $280m (with maturity dates between 31 January 2019 and 30 June 2019) and a term facility totalling $100m (matures on 30 June 2020). The Syndicated Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited and Tatura Milk Industries.

In addition to the Syndicated Facility, the Group continues to operate three separate banking facilities including; an Inventory Facility (matures on 31 March 2018), an Overdraft Facility (matures on 1 July 2018) and the Vat Financing Facility (matures on 28 February 2019) which are stand-alone facilities and are not subject to cross-charges or cross-guarantees, except as disclosed in note 23.

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

i. the leverage ratio (Net Debt / EBITDA) must be less than 4.75 times at 30 September 2017, stepping down in quarterly decrements at various quarterly reporting dates to be 3.50 times by 30 June 2018, then remaining at 3.50 times until 31 March 2019, then decreasing to 3.00 times at 30 June 2019 and remaining at 3.00 times thereafter

ii. the interest cover ratio (EBIT / Net Interest Expense) must be greater than 2.50 times

iii. shareholder funds must be greater than $250 million.

The Group has complied with these and previous 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 2017						
Non-derivatives						
Secured bank loans	(7,018)	(124,173)	(103,827)	-	(235,018)	(215,344)
Trade and other payables	(169,324)	-	-	-	(169,324)	(169,324)
Derivatives						
Inflows	37,856	-	-	-	37,856	37,672
Outflows	(37,466)	-	-	-	(37,466)	(38,080)
Total financial liabilities	**(175,952)**	**(124,173)**	**(103,827)**	**-**	**(403,952)**	**(385,076)**
At 30 June 2016						
Non-derivatives						
Secured bank loans	(16,934)	(1,273)	(48,878)	-	(67,085)	(62,735)
Trade and other payables	(156,044)	-	-	-	(156,044)	(156,044)
Derivatives						
Inflows	24,410	-	-	-	24,410	23,014
Outflows	(22,827)	-	-	-	(22,827)	(24,597)
Total financial liabilities	**(171,395)**	**(1,273)**	**(48,878)**	**-**	**(221,546)**	**(220,362)**

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 under the following fair value measurement hierarchy:

i. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

ii. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2)

iii. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

21. FINANCIAL RISK MANAGEMENT (CONT.)

D. FAIR VALUE ESTIMATION (CONT.)

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 1 $'000	Level 2 $'000	Total $'000
At 30 June 2017			
Assets			
Derivatives used for hedging	-	1,546	1,546
Available for sale financial assets - listed equity securities	879	-	879
Total assets	**879**	**1,546**	**2,425**
Liabilities			
Derivatives used for hedging	-	(408)	(408)
Total liabilities	**-**	**(408)**	**(408)**
At 30 June 2016			
Assets			
Derivatives used for hedging	-	545	545
Available for sale financial assets - listed equity securities	729	-	729
Total assets	**729**	**545**	**1,274**
Liabilities			
Derivatives used for hedging	-	(1,583)	(1,583)
Total liabilities	**-**	**(1,583)**	**(1,583)**

The Group did not hold 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.

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

	CONSOLIDATED	
	2017 $'000	**2016** $'000
(Net cash)/net debt: borrowings net of cash at bank	(258,469)	53,077
Total equity	572,674	327,838
Net debt to equity ratio	**N/A**	**16%**

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	
	2017 $'000	**2016** $'000
Current assets	703,523	195,229
Total assets	930,083	405,585
Current liabilities	(370,500)	(147,161)
Total liabilities	(586,781)	(162,819)
Net assets	**343,302**	**242,766**
Shareholder's equity		
Issued capital of parent entity	225,262	104,512
Reserves		
Share-based payment reserve	211	94
Capital profits reserve	32,565	32,565
Fair value reserve	(79)	(184)
Retained earnings	85,343	105,779
Total equity	**343,302**	**242,766**
(Loss)/profit after tax for the year	(5,176)	12,930
Total comprehensive (loss)/income	(5,071)	12,747

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.

C. CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016 except as disclosed in note 26.

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

As at 30 June 2017, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $2,833,000 (2016: $5,627,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. SUBSIDIARY AND JOINT ARRANGEMENTS

	Country of incorporation	Nature of relationship	2017 % of ownership interest	2016 % of ownership interest
Tatura Milk Industries Limited	Australia	Subsidiary	100	100
Bemore Partnership	Australia	Joint Operation	50	50
Capitol Chilled Foods (Australia) Pty Ltd (CCFA)	Australia	Joint Venture	25	25

A. INTEREST IN JOINT OPERATION

Bemore Partnership

The Company has a 50% interest in a joint arrangement called the Bemore Partnership set up with Blackmores Limited to market, sell and distribute finished infant nutritional powders and other life stage dairy based nutritional powders. The following amounts are included in the Group's Financial Statements in relation to the joint operation, representing the Group's 50% share of the Bemore Partnership:

	BEMORE	
	2017 $'000	**2016** $'000
Revenue	981	3,254
Cost of sales	(6,433)	(1,945)
Gross (loss)/profit	**(5,452)**	**1,309**
Other income and expenses	(1,507)	(2,123)
Loss for the year	**(6,959)**	**(814)**
Cash and cash equivalents	217	822
Trade and other receivables	556	626
Inventories	-	5,029
Total assets	**773**	**6,477**
Other payables	97	510
Payables to joint operators	682	1,781
Provisions	567	-
Loans from joint operators	7,200	5,000
Total liabilities	**8,546**	**7,291**
Net liabilities	**(7,773)**	**(814)**

Accounting policies applied for the Bemore Partnership are described in note 32b.

B. INTEREST IN JOINT VENTURE

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	
	2017 $'000	**2016** $'000
Share of net profit of joint venture	855	773
Investments accounted for using the equity method	1,288	1,495

Accounting policies applied for the joint venture are described in note 32b.

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 Instrument 2016/785, issued by the Australian Securities and Investments Commission. The above companies represent a "closed Group" for the purposes of the Instrument, 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

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 13). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. Based on all available information and professional advice, management considers there are no significant contingent liabilities at 30 June 2017. The Group has bank guarantees as at 30 June 2017 totalling $4,573,000.

27. COMMITMENTS

A. CAPITAL COMMITMENTS

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	4,306	9,828

B. LEASE COMMITMENTS - GROUP AS LESSEE

Non-cancellable operating leases consist of the following types:

	CONSOLIDATED	
	2017 $'000	**2016** $'000
Equipment	532	1,054
Motor vehicles	217	217
Land and buildings	362	5,862
Total lease commitments	**1,111**	**7,133**

The equipment leases have terms of up to five 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	
	2017 $'000	**2016** $'000
Within one year	568	2,054
Between one and five years	543	5,079
Total lease commitments	**1,111**	**7,133**

28. SUBSEQUENT EVENTS

The financial impact of the transactions set out below which occurred after 30 June 2017 has not been recognised in these financial statements.

A. DIVIDEND

On 23 August 2017, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $9,253,000.

B. BUSINESS COMBINATION - ACQUISITION OF MDLZ GROCERY BUSINESS

On 4 July 2017, the Group acquired Mondelēz International's Australia and New Zealand grocery and cheese business (MDLZ Grocery Business) and with it some of Australia's most iconic brands for the total consideration of $456 million.

The MDLZ Grocery Business includes brands such as Vegemite, ZoOSh and Bonox – and other products using brands under licence such as peanut butter, nut spreads, processed cheese slice, ambient cheese spread, mayonnaise, parmesan cheese, Easy Mac and Mac & Cheese, as well as the Port Melbourne site.

The financial effects of this transaction have not been recognised at 30 June 2017. The operating results and assets and liabilities of the acquired company will be consolidated from 4 July 2017.

(I) PURCHASE CONSIDERATION

The provisionally determined fair values of the assets and liabilities of the MDLZ Grocery Business as at the date of acquisition are as follows:

	Bega Foods Fair value $'000
Inventories	34,000
Intangible assets	140,008
Land and buildings	62,590
Plant and equipment	27,793
Employee benefits	(5,657)
Deferred tax liabilities	(40,303)
Fair value of identifiable net assets acquired	**218,431**
Goodwill	237,554
Net assets acquired	**455,985**
Purchase consideration:	
Cash paid	455,985

The goodwill is attributable to the MDLZ Grocery Business' strong position and profitability in trading key brands.

(II) ACQUISITION RELATED COSTS

Acquisition-related costs amounting to $11,518,000 have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in FY2017. Further costs of acquisition will be recognised as an expense in profit or loss in FY2018.

(III) INFORMATION NOT DISCLOSED AS NOT YET AVAILABLE

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of the MDLZ Grocery Business. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuations have not been finalised. It is also not yet possible to provide detailed information about any contingent liabilities of the acquired entity.

C. SHARE PURCHASE PLAN

A Share Purchase Plan Offer (SPP Offer) was opened on 3 July 2017 and closed on 31 July 2017. Under the SPP, each eligible Bega Cheese shareholder was able to subscribe for up to $15,000 of new Bega Cheese shares. The SPP Offer raised $50.2 million and 9,561,404 new Bega Cheese Limited shares were issued on 8 August 2017. Following this the Group has 185,054,790 ordinary shares on issue.

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.

B. RELATED PARTY TRANSACTIONS WITH GROUP ENTITIES

Details of transactions between the Group and other related parties are disclosed below. During the period the Group had the following transactions with Bemore:

	CONSOLIDATED	
	2017 $	2016 $
Sales made by Tatura to Bemore	1,904,660	13,403,881
Amounts payable by Bemore to Tatura at period end	341,310	649,400
Sales made by Bemore to Tatura	634,258	-
Amounts payable by Tatura to Bemore at period end	634,258	-

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

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

	CONSOLIDATED	
	2017 $	2016 $
Sales made to CCFA	5,877,976	6,447,274
Rent paid by CCFA to Bega Cheese	224,664	222,444
Amounts payable by CCFA to Bega Cheese at period end	483,797	417,431

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

C. KEY MANAGEMENT PERSONNEL REMUNERATION AND TRANSACTIONS

	CONSOLIDATED	
	2017 $	2016 $
Short-term employee benefits	4,695,720	4,554,786
Post-employment benefits	239,019	247,278
Other long-term employee benefits	362,879	159,845
Share-based payments	117,039	-
Total employee benefits	**5,414,657**	**4,961,909**

During the year, some Directors and their related entities had transactions with the 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	
	2017 $	2016 $
Payments made by the Group during the year	8,378,898	9,706,836
Amounts outstanding at year end	542,927	594,670

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

30. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2017 $	2016 $
Audit services		
PwC Australia - Audit and review of financial statements	465,000	417,800
Non-PwC firm - Audit and review of financial statements of the joint arrangements	7,500	7,500
Non-audit services		
PwC Australia - Other services	181,200	6,000
PwC Other network teams - Other services	2,000	-
Non-PwC firm - Other services	75,818	7,200

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 capital raising, share schemes and international tax advice.

31. SHARE-BASED PAYMENTS

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

The Bega Cheese Limited Long-Term Incentive Plan was established in FY2017 and is designed to provide long-term incentives to the CEO to deliver shareholder returns. Under the Plan, the CEO is granted share rights which only vest if certain performance standards are met. Under the CEO's LTI Plan he was awarded 66,370 performance rights not yet vested resulting in $117,039 being expensed in FY2017.

	CONSOLIDATED	
	2017 $'000	2016 $'000
Entitlements due under employee share schemes:		
Expense in relation to Long-Term Incentive Plan	(117)	-
Total employee share scheme expense	**(117)**	**-**

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

32. 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 the entities it controlled at year end or from time to time during the financial year. Bega Cheese is domiciled in New South Wales and is incorporated in Australia.

The financial statements were authorised for issue by the Directors on 23 August 2017. 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

There have been no new accounting standards interpretations or amendments to standards published that were mandatory for the first time for the financial year beginning 1 July 2016 that have a significant impact for the Group.

Early adoption of standards

The Group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

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

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese (Company or parent entity) as at 30 June 2017 and the results of all subsidiaries for the year then ended. Bega Cheese and the entities it controlled 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.

Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

When the Group transacts with a joint operation as a joint operator (such as through a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

Details relating to the joint operation are set out in note 24.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

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.

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.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 or assets.

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 accruals 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.

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 deducted from the cost of the asset 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.

Following guidance published by the International Financial Reporting Interpretations Committee (IFRIC) during the year, the Group has changed its accounting policy for the accounting of deferred income tax on intangible assets with indefinite useful lives. The Group had previously assumed that water rights acquired as part of a business combination would be recovered through use as this is a better reflection on how the Group expects to recover those assets. This resulted in the recognition of a deferred tax liability in the current year.

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). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

K. CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand 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 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.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. INVESTMENTS AND OTHER FINANCIAL ASSETS

Loans and receivables

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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.

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.

Available for sale financial assets

Certain shares held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in note 21. Gains and losses arising from changes in fair value are recognised through other comprehensive income with the exception of impairment losses that are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

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 administration 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 administration 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

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 2).

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 32j.

Water rights

Water Rights are recognised at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 32j.

Headwork utilities rights

Headwork utilities rights are recognised at cost less impairment losses. The asset is tested for impairment in accordance with the policy stated in note 32j.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Q. INTANGIBLE ASSETS (CONT.)

Software under development

Expenditure on the development of intangibles, such as software, for internal use is capitalised as an intangible asset. Internally developed intangibles with a finite useful life are carried at cost less accumulated amortisation and impairment losses.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- there is an ability to use the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and will be amortised from the point at which the asset is ready for use using the straight line method over its estimated useful life.

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible asset acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 against borrowings 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 unless they relate to 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.

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 high quality 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 liability 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.

32. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AA. ROUNDING OF AMOUNTS

The Company is of a kind referred to in Instrument 2016/191, 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 Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AB. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 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). Simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. The standard also introduces a new impairment model that will require companies to account for expected credit losses at the time the asset is recognised, rather than only incurred credit losses as is the case per AASB 139. The Group is currently assessing the impact of the changes but does not expect they will have a material impact on the Group.

ii. AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods commencing on or after 1 January 2018) 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. Following the Bega Foods acquisition, 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.

AC. 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 and joint venture entities are included in Bega Cheese's income statement.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 40 to 78 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 2017 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 32 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
Sydney

Raelene Murphy
Independent Director
Hobart

23 August 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bega Cheese Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OUR OPINION

In our opinion:

The accompanying financial report of Bega Cheese Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended;

b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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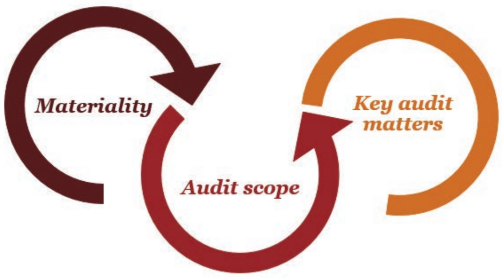
OUR AUDIT APPROACH

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates. We also ensured that the audit team included people with the appropriate skills, competencies and adequate dairy and manufacturing industry expertise, needed for the audit of a complex manufacturing and distribution business such as Bega Cheese Limited.



Materiality

- For the purpose of our audit, we used overall Group materiality of $1.8 million, which represents approximately 5% of the Group's profit before tax, adjusted for the impact of unusual or infrequently occurring items (as described below) and averaged over the current and two previous reporting periods.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is a benchmark against which the performance of the Group is commonly measured and is a generally accepted benchmark. We adjusted for the impact of the gain generated on the Mead Johnson transaction, the costs specifically incurred as part the MDLZ Cheese and Grocery business (Bega Foods) acquisition and the impairment recognised on tangible and intangible non-current assets (in the current reporting period) and for the impact of the costs incurred as part of the Milk Sustainability and Growth program (in the two previous reporting periods), as these were unusual or infrequently occurring matters impacting the Group's profit before tax. We used a three year average because of the volatility in dairy commodity prices which caused fluctuations in profit and loss from year to year.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focussed on where the Group made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We audited the financial information of Bega Cheese Limited and Tatura Milk Industries Limited, the two main operating entities of the Group, and performed specified risk-focussed audit procedures over selected balances of the Bemore joint operation and the Capital Chilled Foods (Australia) Pty Ltd (CCFA) joint venture.
- At the Group level, we performed audit procedures over the purchase price allocation and transaction costs relating to the Bega Foods acquisition (no other audit procedures were required over Bega Foods since the acquisition was completed subsequent to 30 June 2017), the consolidation process and the preparation of the financial report.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
Post balance sheet event - acquisition of Bega Foods – business combination Refer to notes 1 and 28 On 4 July 2017, the Group completed the acquisition of Bega Foods for consideration of $456 million. We determined this to be a key audit matter given: • the magnitude of the transaction • the accounting for transactions costs incurred prior to 30 June 2017 was complex due to the post balance sheet timing of the completion of the acquisition. • the significant judgements required by the Group in identifying and determining the fair value of the assets and liabilities acquired (in particular property, plant and equipment, inventory and identified intangible assets) including: - nature of intangible assets - discount and royalty rates used in valuation of intangible assets.	We obtained the Bega Foods sale and purchase agreement to develop an understanding of the terms and conditions of the transaction. Our audit procedures on the provisional allocation of the purchase consideration to assets and liabilities acquired based on their fair value included, amongst others: • Observed a sample of inventory items acquired and assessed the main assumptions in the Group's inventory fair value calculations, such as the current replacement cost of raw materials inventory and the cost to complete the manufacturing, estimated selling price, cost of disposal and profit allowance for the selling effort associated with work in progress and finished goods inventory, with reference to observable market data and historical information. • Agreed the fair value of property, plant and equipment and identified intangible assets to third party valuation reports and considered the Group's external valuers' competency, qualification, experience and objectivity, as well as the appropriateness of the methodologies used in these valuations in the context of generally accepted valuation techniques for similar assets. • Reperformed the calculation of the resultant goodwill. For the valuation of intangible assets, we were assisted by PwC valuation experts in further assessing the methodologies and the main assumptions included in the external valuations commissioned by the Group. In particular, we: • Developed an understanding of the basis for estimates made in determining the expected income generating capacity of the identified intangible assets. • Evaluated the reasonableness of the cash flow inputs in the valuation models with reference to the historical performance of the acquired business. • Compared the discount and royalty rates used in the valuations with rates generally observed in the industry. For the costs incurred prior to 30 June 2017 as part of the acquisition, we checked that these had been expensed, as required by Australian Accounting Standards. We also considered the adequacy of the Group's disclosures in the light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Accounting for the transaction with Mead Johnson Refer to note 1 During the period, the Group entered into an agreement to sell one of its spray dryers at Tatura and its infant formula finishing plant at Derrimut to Mead Johnson Nutrition (Australia) Pty Ltd (Mead Johnson), including the capability to export product into China, for a consideration of $200 million. As part of this transaction, the Group secured a 10-year service and access agreement with Mead Johnson for the plant and equipment. We identified this as a key audit matter because of the magnitude of the transaction and due to the complexity and judgement involved by the Group in the interpretation of the contractual arrangements.	We obtained various contracts signed as part of the transaction to identify and develop our understanding of: • The different commercial elements included in the transaction. • The extent to which the transaction impacted and changed the operational relationship and cash flows between the Group and Mead Johnson. • The Group's interpretation of the terms and conditions of the contracts. We assessed the Group's proposed accounting treatment and disclosures for the various identified components of the transaction in the light of our understanding and the requirements of Australian Accounting Standards for transactions of this nature.

Key audit matter	How our audit addressed the key audit matter
Inventory provisions Refer to note 1 and 10 The Group recognised inventory provisions where the estimated selling price less costs to sell (known as the net realisable value (NRV)) of the inventory was lower than its cost. At 30 June 2017, such provisions included, in particular, some write downs of infant and nutritionals finished goods and raw materials inventory. We identified this matter as a key audit matter due to: • the significant impact on the profit and balance sheet, given the size of the inventory provisions • recent disruption in the domestic and international infant nutritional markets that has impacted the Group and the ability of some of its customers to sell certain of their existing products during the year, leading to higher levels of inventory provisions across the Group at 30 June 2017 • the continuing pressure on global dairy commodity prices impacting the estimated future selling price of inventory, particularly milk powders • the Group's judgement about the future use of inventory items affected by shelf life and other quality or obsolescence issues and about the price that might be achieved for such inventory in the relevant markets.	Our audit procedures included, amongst others: • Observed a sample of physical inventory counts to determine whether items of inventory with quality or obsolescence issues had been appropriately identified separately from other inventory items. • Evaluated the Group's processes for identifying NRV matters, by reading minutes of Board and management meetings, inspecting a sample of available correspondence between the Group and some of its major trading partners, discussions with quality control managers and considering the publicly known difficulties faced by the dairy industry (including recent trends in global dairy commodity prices and the disruption in the domestic and international infant nutritional markets). • Considered available information about past sales performance and future sales forecasts provided by a sample of the Group's trading partners to assess the Group's determination of the quantities of inventory likely to be in excess of reasonably expected demand. • Developed an understanding of the Group's planned future use for a sample of inventory items and considered the resolution of previous quality or obsolescence issues, where comparable, to assess the feasibility of the Group's plans for re-processing or disposal for these items. • Assessed, on an overall basis, the accuracy of the Group's estimate of the NRV of inventory not meeting premium quality criteria with reference to the cost and expected future returns of downgraded inventory items. • Compared a sample of the Group's estimated future selling prices used as an estimate of the NRV for milk powder inventory, with actual prices included in a sample of committed sales orders and contracts. • Considered a sample of claims received from customers in FY17 and a sample of other sales adjustments processed in July 2017, to identify any issues that could have impacted the value of inventory held at year end.

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OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the key highlights, the executive chairman's review, information about the Group's transformation to the great Australian food company, the chief executive officer's review of operations and activities, the corporate governance statement, the directors' report, the shareholder information and the corporate directory (including information about the group's sites) included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

OUR OPINION ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 22 to 32 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

RESPONSIBILITIES

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

SJ Bourke
Partner

Sydney
23 August 2017

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2017:

DISTRIBUTION OF EQUITY SECURITIES

Holding	Number
1 – 1,000	4,559
1,001 – 5,000	2,964
5,001 – 10,000	549
10,001 – 100,000	494
100,001 and over	168
	8,734

There were 280 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

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

Name	Number of shares	% of issued shares
Perpetual Limited	22,129,695	12.6%
Karara Capital Limited	7,219,452	4.1%
Ellerston Capital Limited	5,732,193	3.3%
Cooper Investors	5,064,034	2.9%
BT Investment Management Limited	3,450,324	2.0%
Netwealth Investments Limited	3,355,157	1.9%
RE Platts*	3,280,014	1.8%
JP Morgan Nominees Australia Limited	3,143,019	1.8%
Australian Foundation Investment Company Limited	2,872,800	1.6%
Norges Bank	2,706,844	1.5%
Aljo Pastoral Pty Ltd*	2,704,984	1.5%
Jerang Pty Limited*	2,664,012	1.5%
Vanguard Investments Australia Limited	2,470,491	1.4%
The Vanguard Group, Inc	2,231,244	1.3%
JL & KD Kimber	2,140,066	1.2%
BlackRock, Inc.	1,915,925	1.1%
R & R Apps Pty Ltd	1,823,972	1.0%
PC Shearer	1,681,408	1.0%
PJ, CL & AL Collett	1,521,116	0.9%
S & M Roberts*	1,455,000	0.8%
	79,561,750	**45.3%**

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

SUBSTANTIAL HOLDERS

No shareholder holds more than 15% of the issued capital of the Company. Under the Company's constitution a shareholder limit of 15% is in place until 16 August 2021. In accordance with Rule 3.10 of the Bega Cheese Limited Constitution, at the 2015 Annual General Meeting the shareholders voted to increase the shareholder limit to 15% for a further five years from 17 August 2016, after which time it will be removed.

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.

CORPORATE DIRECTORY

ADVISORS

Auditor
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000

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

Paul van Heerwaarden
Chief Executive Officer

Colin Griffin
Chief Financial Officer

David McKinnon
General Manager Human Resources

Garth Buttimore
General Manager Manufacturing Services

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, joint venture and joint operation. Bega Cheese and its subsidiary together are referred to in this financial report as the 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.

Bemore Partnership
Bemore Partnership (joint operation or Bemore) is the 50% joint operation of Bega Cheese.

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W: www.begacheese.com.au

Share Register
Link Market Services Limited
Tower 4, 727 Collins Street
Docklands VIC 3008
T: 1300 554 474

Reporting Period
This Annual Report is for the year ended 30 June 2017 and is referred to as FY2017.

OUR SITES

TATURA
236 Hogan Street
Tatura VIC 3616 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

DERRIMUT
11 Benn Court
Derrimut VIC 3030 Australia

PORT MELBOURNE
1 Vegemite Way
Port Melbourne VIC 3207 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
Bega NSW 2550 Australia