ASX ANNOUNCEMENT

Bega Cheese Limited

Release of Preliminary Results for the Year Ended 30 June 2021

Attached is Appendix 4E for Bega Cheese Limited for the year ended 30 June 2021.

B. G. Kelly

Brett Kelly
Company Secretary

27 August 2021

For further information please contact

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BEGA CHEESE LIMITED

4E PRELIMINARY FINAL REPORT

30 JUNE 2021

LODGEMENT DATE

27 AUGUST 2021

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 2021 and any public announcements made by Bega Cheese Limited ("Bega Cheese" or "Group") during the year ended 30 June 2021 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

1. Reporting Period

The reporting period for Bega Cheese Limited is the year ended 30 June 2021 with the previous corresponding year to 30 June 2020. 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 2021, Bega Cheese Group delivered a statutory profit after tax of $72.2 million.

Consolidated	2021 $m	2020 $m	Change $m	Change %	Up/Down
Statutory Revenue from ordinary activities	2,073.4	1,493.2	580.2	39	Up
Statutory EBITDA	182.7	87.8	94.9	108	Up
Statutory Profit after tax	72.2	21.3	50.9	239	Up
Statutory Profit after tax attributable to shareholders	72.2	21.3	50.9	239	Up
	cents	cents	cents	%	Up/Down
Net tangible assets per share	187.6	119.9	67.7	56	Up

	Cents per Security	Franked cents per Security @ 30 % tax
Current Period		
2021 Final dividend - payable	5.00	5.00
2021 Interim dividend - paid	5.00	5.00
Previous Period		
2020 Final dividend - payable	5.00	5.00

	Record Date
Record date for determining entitlements to dividends	
2021 Final dividend	2 September 2021
Date of payment of dividends	
2021 Final dividend	24 September 2021

Further details of the FY2021 financial position, performance and cash flows are set out in the 2021 Annual Report, which is provided together with this 4E Preliminary Final Report.

3. Dividend Reinvestment Plan

Bega Cheese's Dividend Reinvestment Plan (DRP) will be activated for the FY2021 final fully franked dividend. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares allocated under the DRP will be derived from new issued ordinary shares. The shares issued rank pari passu with other ordinary shares already on issue. The allocation price will be determined in accordance with the DRP rules as the arithmetic average of the daily volume weighted average market price of all Bega Cheese shares sold through a normal trade on the ASX trading system over the five business days commencing on the day of the record date.

A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the FY2021 final fully franked dividend to be paid on 24 September 2021 must be recorded by the registry by 5:00 pm on 3 September 2021 to be effective for that dividend.

BEGA CHEESE LIMITED

2021 Annual Report

Our vision is to become **The Great Australian Food Company**

Bega is a diversified branded foods business, with an integrated value chain from farm to consumer.

Our vision is to become The Great Australian Food Company by creating great food for a better future.

Bega is a values-led organisation. These values are reflected in our vision and define what makes us **great**.

Great Food

We create great food and build brands that our customers and consumers love and trust.

Greater Good

We strive for a greater good by combining our success with a positive and lasting impact on others.

Great People

We ensure our people will continue to grow with Bega. We give them the responsibility to work together and achieve great outcomes.

Great Aspirations

We have great aspirations to go beyond our business today. We invest in technology, innovative products and new markets.

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We're proud to own and manufacture some of the most iconic brands in Australia, which have become staples in households across the country.

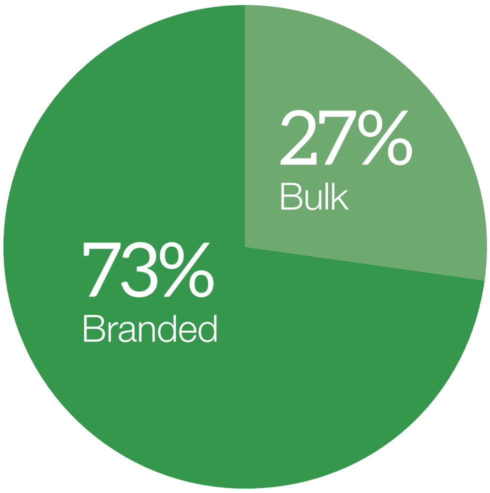
Performance highlights

Revenue

The Bega Cheese Group generated top-line revenue of $2.07 billion in FY2021, which is 39% higher than FY2020. With the acquisition of Lion Dairy and Drinks (completed in January 2021), Bega Cheese accelerated progress towards its goal of having 75% of all revenue generated through branded products, finishing the year with 73% of sales derived from branded business (59% in FY2020).

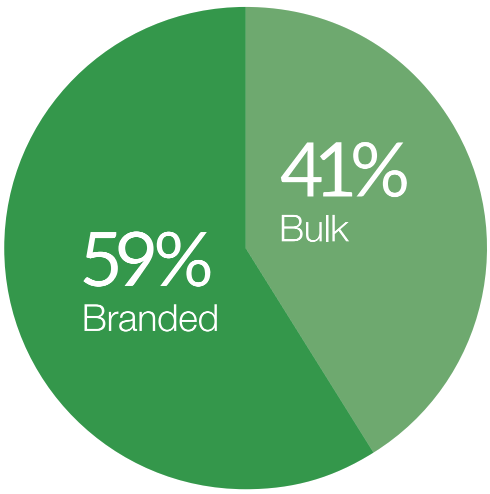
FY2021

$2.07 billion



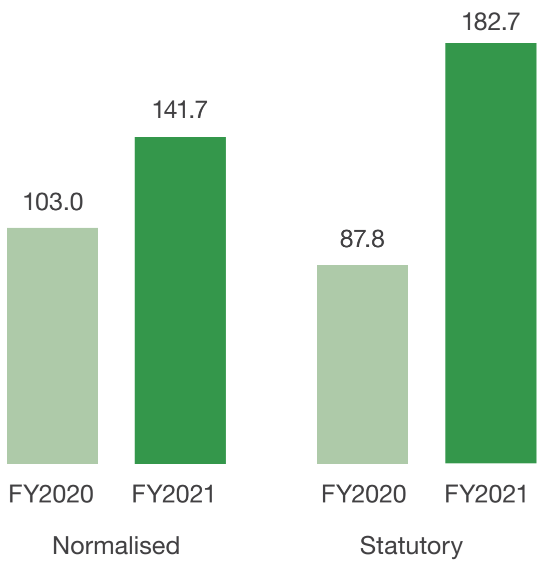
FY2020

$1.49 billion

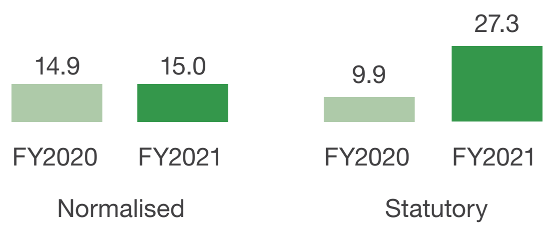


The statutory result for each of FY2021 and FY2020 includes a number of non-recurring items, which in FY2021 related primarily to the provisional bargain purchase on business combination, income from the early termination of two material revenue contracts, partially offset by acquisition and integration costs, and in FY2020 related primarily to legal costs.

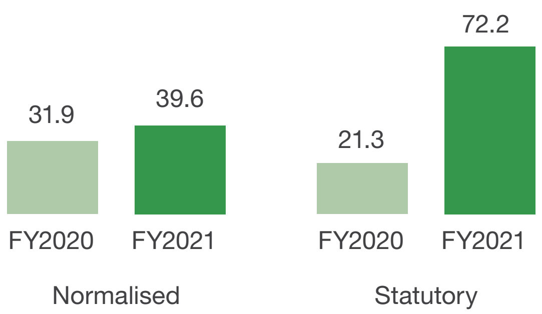
EBITDA ($ million)



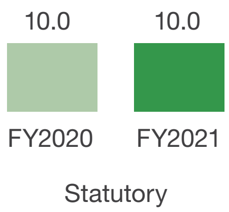
Basic earnings per share (cents)



Profit after tax ($ million)



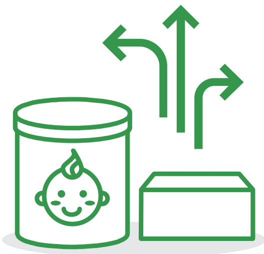
Total dividend per share (cents)

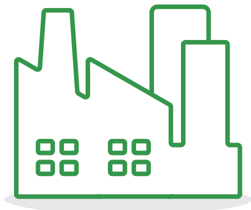


Our transformation to beco
The Great Australian Food C

Bega Cheese has transformed over the past 20 years from a dairy co-operative with a strong regional cheese brand into a diversified branded consumer goods business with an integrated and flexible supply chain.

We have responded to significant changes in the dairy industry post deregulation to create a resilient business with a higher-returning product mix. Over this time we have led and participated in industry consolidation and navigated through a challenging supply environment.





2001
Seeking New Opportunities

Co-operative founded in 1899

- Industry deregulation 2001
- Bega based co-op with strong regional brand
- Main focus: cheddar manufacture, process and pack
- Long-term Australian supply and licence agreement with Fonterra
- Developing international sales opportunities

2007
Grow And Diversify

Acquisition of Tatura

- Growth and diversification of milk sourcing
- Entry into nutritionals, cream cheese and milk powders
- Diversification of customer base

2009
Increasing Scale

Acquisition of Strathmerton

- Cut, pack and processing scale and capability
- Further diversification of customer base

2011
Structured For The Future

Accessing capital for growth

- Successful ASX listing
- Value release for farmers
- Well structured for corporate activity
- Acquisition of the remaining stake in Tatura
- Investment in capacity and increased focus on nutritionals and high-value dairy products
- Developing foodservice and consumer businesses

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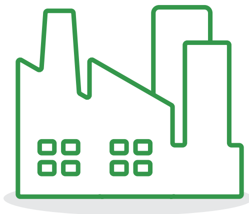
2017

New Business Platform

Acquisition of grocery brands

- Entry into spreads category
- Iconic Australian brands, including Vegemite
- Extending the Bega brand into new categories
- Investing in sales and marketing capability
- Acquisition of PCA to secure Australian source of peanuts



2018

Strengthening Our Supply Chain

Acquisition of Koroit

- Growth and diversification of milk sourcing
- Strengthening our dairy portfolio
- Integrated and flexible supply chain
- Scale ingredient processing supporting customer brands
- Decision to close sub-scale manufacturing facility in Coburg

2021

Transformational Acquisition

Acquisition of Lion Dairy and Drinks

- Portfolio of iconic Australian brands
- Broaden customer base and new cold chain distribution network
- Substantial synergies across the supply chain
- Accelerated investments in growth and innovation
- Further growth and diversification of the milk pool

The Future

The Great Australian Food Company

Creating great food for a better future

- Diversified portfolio of market-leading brands
- Efficient distribution network servicing customer growth
- Globally competitive supply chain
- Direct relationship with farmers and suppliers
- Shaping our future through corporate social responsibility, sustainable practices and circularity

Chairman's Report

Embracing change and responding to new circumstances, challenges and opportunities have always been the key to success at Bega Cheese.

Our values are the foundations on which Bega Cheese is built. As we work towards creating "The Great Australian Food Company" we always recognise that Great Food, Great People, Great Aspirations and the importance of the Greater Good are what drive and inspire us.

The values of supporting each other, investing for the future, having a passion for the customer, growing our people and making a difference in our communities have all been demonstrated in FY2021. During the year the Company continued to manage the many impacts of COVID-19, made the largest and most important transformational acquisition in our history, managed volatile trading environments, and initiated a community program focused on the principles of circularity.

The importance of consistent strategy and strong values is perhaps never more evident than in times of uncertainty. Our capacity to be agile and change, while remaining confident in the strategic direction of our business, was again on display in FY2021 as we continued to operate in a COVID-19 safe manner, responded to changed customer and supplier requirements and executed the acquisition of Lion Dairy and Drinks.

The business continued to perform well through uncertain times and a major acquisition, with revenue growth of 39% in FY2021 to $2.07 billion, our statutory EBITDA was $182.7 million and statutory PAT was $72.2 million. On a normalised basis the Company achieved EBITDA of $141.7 million, PAT of $39.6 million and EPS of 15.0%. The total dividend for the FY2021 year will be 10 cents per share.

As Bega Cheese continues to grow, it is ambitious in what it seeks to achieve. The most recent acquisition of Lion Dairy and Drinks will see the company double annual revenues and become a truly integrated dairy and food company, with a supply chain that begins with our long-standing relationships with Australian farmers and reaches customers in Australia and around the world with a significant range of dairy and food products and a suite of iconic brands. Many of these brands hold number one or number two market share positions and reach our more than 30,000 retail, convenience and food service customers across Australia through a variety of channels including our own chilled distribution network, one of the largest in the country.

It was pleasing to see the strong support of shareholders for our Lion Dairy and Drinks acquisition with a successful capital raise of $392.7 million. The purchase price of $528.2 million, from an accounting perspective has been provisionally assessed as a 'bargain purchase'. The price, successful capital raise and performance of the business have seen the Company's leverage ratio decrease to 2.25 in FY2021 and we expect further strengthening of our balance sheet in FY2022.

The integration of the Bega and Lion Dairy and Drinks businesses brings together 20 strategically located manufacturing facilities, with capacity to meet our customers' requirements wherever they may be in the world, and deliver a range of products that includes high-value micro proteins such as Lactoferrin, infant formula and nutritional powders, as well as cheddar, processed and cream cheese, milk, iced coffee, flavoured milk, yoghurt, juice, Vegemite and peanut butter.

The Company is also a joint venture partner with Vita International in Vitasoy Australia positioning us well to participate in the fast-growing plant-based milk segment of the market.

The financial performance and progress of business development initiatives for the Dairy and Drinks business in our first five months of ownership have been above expectations, with the business making an important contribution to our FY2021 result.

We have established a subcommittee of the Board to assist with the Lion Dairy and Drinks integration. Deputy Chairman Peter Margin chairs the subcommittee which includes, CEO Paul van Heerwaarden, CFO Peter Findlay, Executive General Manager Strategy & Planning Steve Rae and myself. The integration, realisation of synergies and identification of business development opportunities all continue to track well. We expect the integration subcommittee to be in place until the end of the calendar year.

While it has been important to execute the Lion Dairy and Drinks acquisition and quickly begin the integration process, it has been equally crucial to respond to the changed circumstances in both the operations of our business and the market.

The safety of our people and all involved in our supply chain is of utmost importance to the Company. We continue to prioritise safety throughout our business and the operational impacts of COVID-19 across all our sites and throughout our supply chain. Specialised COVID-19 management committees which include senior executives, and safety and site leadership, work closely with government and our supply chain partners to ensure we can continue to procure, produce and deliver our products to our customers in Australia and around the world.

Competition for milk remained very robust in FY2021. While seasonal conditions were very positive, there was only modest supply growth of 0.6% across the industry. The competitive circumstances for milk have continued into FY2022 with farm gate milk prices very strong. Positive market signals at the farm gate for the third year in a row and excellent seasonal conditions are seeing a much more positive outlook from dairy farmers in most supply regions. Excess manufacturing and milk processing capacity combined with the relative slow growth of milk supply continues to be an issue in the industry. Bega Cheese's focus beyond the integration of Lion Dairy and Drinks continues to be on the efficient use of existing industry infrastructure including toll manufacturing opportunities and further potential consolidation. We remain optimistic regarding milk supply growth across the industry given much improved farming circumstances, and continue to support our farmers with experienced field staff and on farm improvement programs.

We have seen changes in the market since the onset of COVID-19. Of note is the change in demand in the infant formula and toddler category, particularly in China. The reduced demand across the sector can be attributed to the lack of international travel materially changing the "Daigou" channel, lower than expected birth rates in China, and stronger support of Chinese-owned brands by Chinese consumers.

The change in demand has had significant impact on companies in the sector and on many of our Australian-based customers to whom we supply infant and toddler dairy nutritional products. We have been pleased to see our customers diversify their customer portfolio and geographic spread, which mitigates the decline. From a company perspective we have long held the view that a diversified customer base, which includes both Australian and international customers, servicing a variety of markets, is important. While not entirely being able to offset the reduced demand from China, servicing customers in markets such as Indonesia over a great many years has helped manage the changed demand profile.

The change in market does not alter our long-term strategy of providing high-quality infant and toddler dairy nutritionals to customers in Australia and around the world. Whilst infant and toddler nutritional products remain a high-value and core competency of our business, we will ensure that we "right size" our business to respond to changes in the market and position the business well for future opportunities.

We continue to see improved performance in the spreads category with both Vegemite and Bega Peanut Butter growing market share, and increased distribution of B honey continuing with both major retailers now carrying the range. While there have been some spikes in consumer demand associated with lockdowns and stay at home orders, these are well managed within the business and are not considered material to the overall performance.

International sales of our retail and food service products such as cream cheese and processed cheese continue to grow but have been impacted by shipping delays and costs which we continue to carefully manage and monitor.

Sustainability and community support have always been a part of the Bega Cheese culture and we continue to endeavour to both meet the expectations of our stakeholders and support our communities. Our work and alignment with the United Nations Sustainability Development Goals will be set out in our FY2021 sustainability report.

We are continuing to build on our sustainable farms and sustainable factories programs and focus on circular economy initiatives in collaboration with suppliers and customers. In addition, we have also been working on a clearly defined path to reduce our emissions in support of the Paris Agreement goals.

Based on this initial work, we have committed to reducing absolute Scope 1 and 2 GHG emissions by 40% by 2030 and emissions intensity by 50% per litre produced for Bega Dairy and Drinks and per tonne produced for Bega Cheese off a base year of 2021. Furthermore, we are working towards developing a clearly defined path, aligned with the Science Based Targets initiative

(SBTi), to achieve net Zero by 2050, and will be engaging with our material customers and suppliers by 2022 to understand our scope 3 supply chain emissions and where reduction opportunities exist.

Our sustainability report will provide further detail on our emissions reduction targets and our intention to report in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The challenge of sustainability is one that must by its very nature encompass the entire supply chain. While efforts by companies, organisations and individuals are important, it is as a collective that we will truly make a difference. With this in mind, Bega Cheese is championing a community endeavour to introduce a pilot program in the Bega Valley to create the most 'circular' region in the world. With the pro bono support of KPMG, Rabobank and Addisons, Bega Cheese is working with the Local Council and NSW State government agencies, small business, landowners and community organisations to coordinate and facilitate circularity projects across the region.

Bega Cheese will assist in establishing a non-distributing community circularity cooperative that will serve as a model for other regions to follow and create opportunities for new initiatives and research to drive changed practices and approaches across energy, soil, biodiversity, waste, packaging, logistics, animal care, education, the rural economy and tourism. It is an ambitious project, but one that has captured the imagination of the region and been embraced by all who have been approached to take part.

It is the commitment and endeavour of many that drive success. Bega Cheese CEO Paul van Heerwaarden, has led his senior executive and the whole Bega Cheese team through a year of great challenge and great ambition. In his report Paul shares his perspectives on the performance and operations of the business.

We are very proud of our long history at Bega Cheese. As we grow and change, we inevitably say goodbye to culture-bearers who have made great contributions to the organisation and welcome new people who will carry the Company forward. At last year's AGM we said goodbye to Richard Parbery. Richard had served as a director for 32 years. There are no words sufficient to describe Richard's contribution to the organisation. He has been there for each important step, always shared a great vision for the small, regionally based cooperative at which we began working together in 1989 and supported the strategy and culture as we changed structure and made the important acquisitions and investments that enable us to grow and move closer to our goal of becoming The Great Australian Food Company.

Thank you, Richard, for all you have done.

Richard's departure created the opportunity for board renewal and in February we welcomed Harper Kilpatrick to the Board. Harper's background and approach will no doubt make a great contribution to both the culture and development of Bega Cheese as we continue to build on our strong foundations.

As we look to the future, we can see the business we have built is well-placed to respond to our consumers wishes to understand where their food comes from, how it is produced, how it is manufactured and packaged and how it is delivered to them.

We are a company of great heritage and traditional values, which is exactly what the modern consumer is looking for. Our connection with farmers and their production systems has been in place for generations. Our manufacturing plants are located all around Australia, many in regional areas. Our products and brands are known and trusted, and we continue to develop and deliver products in formats that are convenient and accessible.

The history of our organisation and our supply chain, from paddock to plate, means that we understand the importance of sustainability from an environmental, economic and community perspective. The performance and priorities of the business in FY2021 demonstrate our capacity to be agile, the ability to change, deal with challenges and recognise opportunities. I thank Paul van Heerwaarden and the entire team at Bega Cheese and particularly acknowledge the significant contribution of my fellow directors and thank, our shareholders, suppliers and customers for their continued support.

Barry Irvin
Executive Chairman

27 August 2021

BRAND SPOTLIGHT

Dairy Farmers

Founded in 1900, the Dairy Farmers brand has been synonymous with milk products for over a century. Dairy Farmers has a scanned retail sales of $272m[1], representing approximately half of the brand's total retail sales. With 86 products, Dairy Farmers plays a multi-category role across milk, yoghurt, cream-based products and flavoured milk. See **www.dairyfarmers.com.au**

1 IRi Total Business Scan (AU Grocery Unweighted + Structured Convenience), MAT to June 2021.

Chief Executive Officer's Review

As I reflect on the various challenges and opportunities that presented themselves throughout what was another busy and eventful year at Bega, it is fair to say we have emerged as a significantly larger and stronger company than what we were over 12 months ago, particularly following the acquisition of the Lion Dairy and Drinks business.

The year has seen the impact of a global pandemic, increasing geopolitical tensions and competitive pressures across the dairy industry and grocery channels. We mustn't forget the impact from the devastating bushfires that ravaged many parts of Australia more than 18 months ago and the prolonged widespread extreme drought that ended soon after, both of which have continued to impact many of our farmer suppliers and employees and the communities where they and their families live. These challenges are unexpected and can be difficult to plan for, but at the end of the day are part of doing business. Importantly, we are guided by our values when responding to these challenges and making the decisions necessary to balance the needs of all our stakeholders. The combination of our increased scale, diversity, capability and risk management provides us with the flexibility and options to do that more effectively.

Financial performance and transformation

Bega Cheese Ltd achieved statutory sales revenue of $2.07 billion in FY2021 which was an increase of 39% on FY2020. Statutory EBITDA in FY2021 was $182.7 million while statutory PAT was $72.2 million which includes provisional bargain purchase gains on the Lion Dairy and Drinks acquisition of $70.0 million. On a normalised basis, EBITDA was $141.7 million and PAT was $39.6 million. Net debt as at 30 June 2021 was $324.9 million resulting in a leverage ratio of 2.25 which is well below our covenant levels and slightly below prior year.

The financial result incorporates the Lion Dairy and Drinks acquisition and five months of commercial operations. The $528.2 million acquisition was supported by a $392.7 million net capital raise and generated one-off costs which have been normalised in the result along with the provisional bargain purchase gain. The integrated business achieved a trading result better than expectations, with positive momentum heading into FY2022, offsetting some margin pressure in our bulk ingredient and contract manufacturing business in the fourth quarter of FY2021.

Importantly, during the year we realised the expected benefits of key initiatives completed towards the end of FY2020. We implemented the recommendations of the organisational and process benchmarking review with supply chain cost efficiencies and overhead reductions. The new lactoferrin facility at Koroit is fully operational and achieved the full year benefit from that investment. With the combined lactoferrin capacity at our Tatura and Koroit facilities, we are now one of the largest lactoferrin producers in the world.

In the second half of FY2021 we were informed that our long-term nutritional powder and canning arrangements with Reckitt would end in FY2022 which is a significant change for our nutritional business. Since 2008 we have had an association with Reckitt and its legacy company Mead Johnson. In 2017, we sold an infant formula drier at Tatura and an infant formula canning plant at Derrimut to Reckitt for $200.0 million and entered into ten-year service and access agreements to operate both plants and maintain access to 25% of the plant capacity. A change in strategy at Reckitt led to a termination notice for the service and access agreements in the second half of FY2021. We received payment for contractual termination fees of $13.9 million in FY2021 with a further contractual termination fee payment of $41.6 million due in FY2022 as compensation for loss of future income and access. We are well progressed in establishing alternatives for drying and canning to support our current and future infant formula business. Further detail is contained in the Review of Financial Performance and Operations.

It is also pleasing to see the year-on-year growth and profitability within the branded segment of our spreads business from the acquisitions of the Mondelez grocery business and PCA several years ago, and the growth and profitability in our bulk segment generated from our facility in Koroit acquired in 2018. These acquisitions have been integrated into the overall business for several years and are providing returns in line with expectations.

Our business model incorporates four elements: our brand portfolio, distribution network, manufacturing footprint and farmer relationships. The acquisition of the Lion Dairy and Drinks Business has transformed and expanded each of the elements of this business model. We are now a company with a broad and diversified range of iconic Australian brands. The capability and breadth of our chilled distribution network provides ongoing growth opportunities to sell more of our products to more customers through our multiple channels in addition to our established grocery channel. Our manufacturing network has increased with facilities across Australia allowing us to maintain scale and flexibility to service our large and geographically dispersed customer base. Our farm supplier network continues to grow and diversify.

Bega was founded as a farmer co-operative 122 years ago and of our various acquisitions of the past 15 years or so, the majority have had similar origins as farmer co-operatives. This heritage provides the context for the importance of our relationships with all suppliers in developing sustainable businesses where we can support each other and grow together. Direct farm milk remains our largest source of ingredient supply across the company and in recent years, through acquisition or direct investment, we have added peanuts, honey and now fruit. The four elements of our business model align with our core capabilities and provide a broad platform for ongoing growth which I will now cover in further detail.

Diversified portfolio of market leading brands

During FY2021 we accelerated our transformation from a predominantly dairy-based commodities company to one of the largest Australian-owned diversified food companies, with the acquisition of Lion Dairy and Drinks. Our expanded portfolio now includes more iconic Australian brands across growing categories. For FY2021 our proportion of branded product sales increased from 59% to 73% of total sales, this will increase further in FY2022 reflecting a full year of Bega Dairy and Drinks sales. The acquisition has effectively doubled the size of Bega, increasing annualised revenue from approximately $1.5 billion to in excess of $3 billion, and employee numbers from approximately 2,050 to 4,150. The acquisition has also enhanced our supply chain capacity and capability to better serve customers and consumers both in Australia and internationally.

The acquisition of Lion Dairy and Drinks consolidates a portfolio of great brands including Bega, Vegemite, Dare, Farmers Union, Dairy Farmers, Pura, Yoplait, B honey, Big M, Masters, Juice Brothers, Mildura and Berri. We have leading market share in large, growth categories such as yoghurt and milk-based beverages. These two product categories alone enjoy growth rates of 4.9% and 5.9% respectively. Our 26% market share in yoghurt and 48% market share in milk-based beverages position us well to capitalise on megatrends such as the growing appeal of natural, healthy foods and a shift to convenience, which are driving growth across these and other product categories.

A 100-day transition plan for the integration of Lion Dairy and Drinks, which commenced at the time we took control of the business, identified several workstreams to realise the synergies announced at the time of the acquisition. These workstreams included:

- an organisational review;
- an assessment of common suppliers to identify potential cost savings; and
- optimisation of milk solids usage across the combined entity.

We provide additional detail about these workstreams in the Review of Financial Performance and Operations.

Since 2017 we have been dealing with two significant legal matters regarding our brands: the right to use the Bega trademark in Australia and the peanut butter trade dress we acquired from Mondelez. In November 2020, the High Court of Australia dismissed an application by Kraft Foods Group Brands LLC and H.J. Heinz Company Australia Limited for special leave to appeal from a judgement of the Full Court of the Federal Court of Australia upholding a decision of the Federal Court that Bega Cheese Ltd was the rightful owner of the trade dress of Bega peanut butter products including the distinctive yellow lid and yellow label. This decision removes the uncertainty regarding the usage of the peanut butter trade dress which had continued to cloud commercial discussions in recent years.

In the judgement handed down in February 2021, in proceedings brought by Fonterra Brands Australia, the Supreme Court of Victoria found that we are entitled to use the Bega trademark on products outside the scope of the trademark licence to Fonterra. This outcome opens the opportunity for the expanded use of the distinctive Bega trademark across a broader range of products in Australia to further build value in the Bega brand.

Extensive chilled distribution network

The acquisition of Lion Dairy and Drinks has transformed our distribution network into one of the largest cold chain distribution networks in the country, with three distribution centres, 13 cool rooms and access to 118 depots. The breadth of this geographic footprint, along with our direct to customer delivery capability, offers improved supply chain reliability to our 30,000 customers, particularly important as we support them in navigating the challenges of the COVID-19 pandemic. This network allows us to deliver right across Australia and make our products available to more than 95% of the population.

Growth and flexibility across our manufacturing footprint

Following the Lion Dairy and Drinks acquisition, we increased the number of manufacturing sites in our network from eight to 20 including highly efficient and scaled yoghurt, flavoured milk, white milk and juice facilities. The integration of the business will see further opportunities to maximise the value of our product mix returns and refine milk management, through greater options to direct milk product to the most efficient and profitable use and avoid waste and underutilisation. Given the scale of our dairy business, the flexibility within our integrated supply chain brings significant and growing cost savings and revenue opportunities as well as the ability to adapt quickly and efficiently to the changing needs of our customers, helping them to get products onto supermarket shelves and into the hands of consumers.

During FY2021 we consolidated several lines across our network. This included individually wrapped processed cheese slice capacity at our Ridge Street site at Bega and our Strathmerton facilities. The transfer of volume and the consolidation of site capacity is largely complete, and our focus is now on maximising the efficiency of both plants. We also further consolidated some of our production lines across the Koroit and Tatura facilities.

Direct relationships with farmers and other suppliers

Our strong farmgate relationships have long been a cornerstone of our integrated value chain. Through the Lion Dairy and Drinks acquisition, we expanded the number and location of direct milk supply relationships to now extend right across all dairy regions of Australia.

While seasonal conditions were highly favourable, farm milk production across Australia only grew a modest 0.6% with strong competition for supply throughout the year. In response to continued milk supply competition, we supported dairy suppliers through competitive milk payments, new milk incentives and our Better Farms program, details of which are included in the Review of Financial Performance and Operations.

The competitive market and pressures on milk supply remain strong. While we increased our milk intake through the acquisition, we lost some milk supply in Victoria due to the end of the two-year Koroit supply guarantee with Saputo, strong competition for milk, and supplier exits due to retirements and alternative land use. We have harmonised milk supply arrangements under the One Bega integration process including milk management, a milk services function, dairy code complaint milk supply contracts, and milk pricing systems for all regions.

With the acquisition of Lion Dairy and Drinks, we now have fruit supply arrangements directly with contracted growers who supplied in excess of 37,000 tonnes of oranges, apples and pears. Growing conditions recovered from the prior year and harvest yields were above average in FY2021. Intake volumes for fruit in FY2022 are expected to be similar to FY2021.

Active peanut grower engagement and initiatives, along with improved weather conditions in Queensland have seen a significant increase in the volume of Australian peanuts harvested. The FY2021 harvest was the largest since 2013 following several years of challenging growing conditions and industry uncertainty prior to our acquisition of PCA back in 2018. The current forecast is for favourable weather conditions in key growing regions in Queensland which will support new crop planting towards the end of calendar year 2021.

Extreme weather conditions and bushfires in early 2020 resulted in a historically poor honey season in FY2021 and significant supply constraints led to higher prices. As honey supply recovers from the challenges of the previous year, we see an improved outlook for honey supply which is necessary to support the ongoing growth and distribution of our B honey brand.

Growing our people

Growing our people through opportunities to work together towards great outcomes is one of the four values that are the foundation of our staff development activities. During FY2021 we revised our employee performance assessment process, giving equal weight to what we do with our objectives, and our behaviours in achieving these objectives.

The challenges faced by our people and across our communities and the change we have gone through at Bega Cheese and in the industry in recent years have been significant. Diversity and inclusion and employee safety and wellbeing were two of my key priorities in FY2021 and this priority will continue into FY2022.

We have committed to continue to improve diversity and inclusion which is now formalised in the Bega Cheese Diversity and Inclusion Policy. At Bega, we all believe that a richly diverse workplace promotes innovation, enhances the quality of decision making and enables us to access and grow the best talent. Our longer-term plans have been formalised into a diversity and inclusion blueprint. The blueprint incorporates three pillars: fostering inclusive leadership, supporting working families and developing women leaders. Each pillar encompasses several programs and policies that will attach to those programs.

To have great people we not only need to ensure that they feel included and have development opportunities; importantly we need to ensure our people are safe and well. While we seek to eliminate all injuries, we realise there is more that needs to be done and continually strive to do better through initiatives such as our safety behavioural leadership program which is facilitated by DuPont Sustainable Solutions. This program includes many facets including one on one coaching and risk containment training for more than 350 of our site-based leaders. One of the outcomes from this program which commenced over 12 months ago has been the increased level of incident reporting including near misses, hazards and injuries. While I remain concerned about this increase, it has allowed our site-based teams and frontline leaders to focus on key risks particularly those related to traffic management and machine safety. Further detail about health and safety is included in the Review of Financial Performance and Operations.

Our Bega Aspire Leadership Development Program develops capability in our aspiring leaders, giving them exposure to senior leaders, the opportunity to forge new internal networks and work on projects that have a lasting impact on the business.

The Bega Graduate Program continued this year and to support the development of our graduates, and early career staff already working in the business, we introduced #HeartLEADER a development program focused on connected relationships, empathy, business agility and leading with heart, specifically designed for millennials, our leaders of tomorrow.

The ongoing development and support of our leaders with these initiatives and the resulting behavioural benefits, which extend beyond safety, diversity and inclusion, are very important for growing our people and setting the cultural expectations for the business.

Supporting the community

Our commitment to sustainability stems from our value of supporting each other. We strive to ensure that our business continues to develop sustainably by reducing our impact on the natural environment and making a positive contribution to society. To date, this commitment has been guided by our comprehensive Corporate Social Responsibility (CSR) strategy, which ensures we focus on the areas of CSR with the most material impact and aligns our activities with the United Nations Sustainable Development Goals. Our five areas of focus are: food and nutrition, packaging, water sustainability, greenhouse gas emissions, and diversity, inclusion and equality.

The acquisition of the Lion Dairy and Drinks business brings an increase in our overall footprint and further opportunity to grow sustainably as a business. We look forward to aligning and consolidating the progressive approaches to sustainability of Lion into our program in coming reporting cycles. Priorities and progress to date will be shared in our FY2021 Sustainability Report.

Our ongoing partnership with Foodbank supports more than 2,500 frontline charities, local communities, and 3,000 schools across the country. With more than 40% of all food and groceries distributed by Foodbank nationally going back to support regional and rural communities, the location of so many of our operations and key relationships, the partnership with Foodbank is at the centre of what we do in the community.

In FY2021, we donated more than 750,000 kilograms of product to Foodbank, equating to more than 1.5 million meals for Australians in need. In addition, we produced more than 230,000 litres of fresh white milk for Foodbank's National Collaborative Supplier Program, providing greater certainty and reliability for the Foodbank supply chain.

Outlook for FY2022 and Beyond

The ownership of a new portfolio of market-leading brands, along with a more flexible and diverse manufacturing and supplier footprint, will provide us with significant growth opportunities across the branded and bulk segments of the business. We will focus on selling more product to more people through our expanded networks, accelerate our pipeline of product innovation and leverage the benefit of a complementary product range and distribution channels, including channels into international markets. We will further grow earnings and continue to realise synergies from the Lion Dairy and Drinks acquisition over the year ahead, including operational efficiencies, procurement and milk optimisation. We also expect a reduction in our leverage ratio and an increase in earnings per share over the first full year of ownership.

Milk supply will remain competitive through FY2022, with historically high opening farm gate milk prices and the ongoing challenge of overcapacity across processors. Positive market signals at the farm gate for the third year in a row, and favourable seasonal conditions, are providing a more positive outlook from dairy farmers in most supply regions, but farmers continue to face challenges from climate change and a shortage of available farm labour.

COVID-19 continues to impact our staff and communities both in Australia and internationally. We remain steadfast in our commitment to the safety, health and wellbeing of staff, staying open for business and providing our range of quality food products to our customers. Having modified our ways of working over the past 18 months to minimise the impact and ongoing risk of COVID-19, we constantly look for better ways to ensure the wellbeing of our people and our communities. While the unpredictable nature of community transmission and the rapidly evolving government measures to contain the pandemic are not without challenge, we remain well-positioned with increased product, geographic and channel diversification. Our extensive manufacturing and distribution network and our ability to adjust supply to meet fluctuating demand allows us to ensure the availability of our much-loved brands for consumers.

Geopolitical tensions, which have seen a change in demand for some products in the international market, will continue for the foreseeable future. While we have a particular focus on the China market for both infant formula and dairy products, we will continue to look for opportunities to further diversify our customer base across a variety of markets to mitigate the potential ongoing impact resulting from these tensions.

Our capital investment program will prioritise projects that increase capacity and support innovation in key growth categories, and reduce safety and environmental risks. We will also continue our investments to extract value in our upstream operations in ingredients and bulk manufacturing that are critical in maintaining our security of supply into our value added branded business. Throughout the sale process of Lion Dairy and Drinks there was lengthy period of underinvestment in growth and supply chain efficiency. This provides us with further opportunities for high-returning capital projects.

In closing, I would like to thank our employees, the executive team, the Board, our farmer suppliers and other suppliers for their significant support throughout what has been both a challenging and productive year. To our customers and the consumers of our products, thank you for your dedication and support, which have brought us so much closer to realising our vision of becoming The Great Australian Food Company.

Paul van Heerwaarden

Chief Executive Officer
27 August 2021

The Greater Good and Corpo

Our Corporate Social Responsibility (CSR) framework sets our agenda for addressing the impacts of our business and where we can contribute to progress in sustainable development. The framework is based on three critical aspects of our business where we can make a difference to the greater good: our products, our people and communities, and our planet.

Within our framework we have five sustainability priorities and we invest directly in programs and activities aligned with these areas, whilst our Bega Better Farms program helps improve our farmer suppliers' resource sustainability and efficiency. These programs and activities are aligned with the UN Sustainable Development Goals and are described in more detail in our annual sustainability report.

Food and nutrition

Reformulating products to align with nutritional profiling standards and designing product alternatives to meet specific dietary requirements.

Packaging

Developing more sustainable packaging solutions to improve recyclability, with an alignment to the Australian Packaging covenant.

Water sustainability

Investing in capital to improve water systems and process redesign to improve water management throughout our operations.

Greenhouse gas emissions

Carbon target scope one and two emissions targets established:

- 40% reduction in absolute emissions by 2030
- Net zero emissions by 2050

Diversity, inclusion and equality

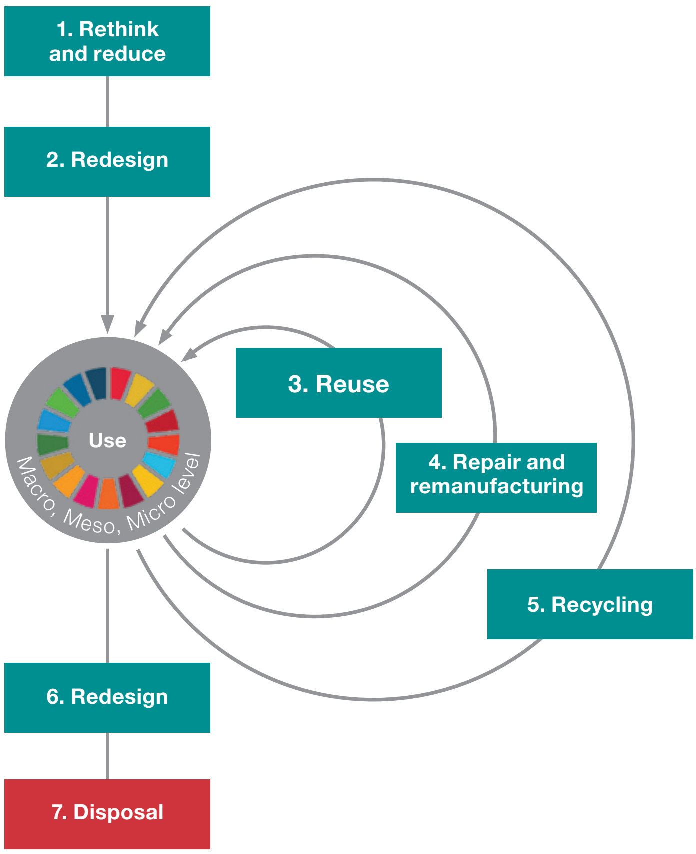
Creating an inclusive culture, embracing diversity and treating people with respect.

Bega Cheese is moving beyond sustainability to circularity in the Bega Valley

We are very proud to have initiated an important transformation project to build a more resilient Bega Valley region through adopting and embedding circular economy principles. With the specialist circular economy support of KPMG and Rabobank, alongside the Bega Valley Shire Council and input from local NSW State Government representatives, we have created The Circularity Co-operative that will co-invest in a range of infrastructure assets, research and circularity capability programs, digital platforms and accelerators to create a legacy for the future generations of the Bega Valley.

A circular economy is about more than just recycling

1. Using resources more efficiently by changing the way we think about production processes. Is the product the best way to meet the demand? Could we use fewer or different resources in its production?
2. Design differently: for example by considering reuse, repair and recycling options in advance of production
3. Product reuse for same purpose
4. Product repair, maintenance and revision
5. Processing and reuse of materials
6. Recover energy from materials
7. Lastly, waster disposal and incineration without energy recovery is avoided where possible



rate Social Responsibility

Our priorities are aligned with the UN Sustainable Development Goals

Our business model

Creating sustainable value from farm to consumer

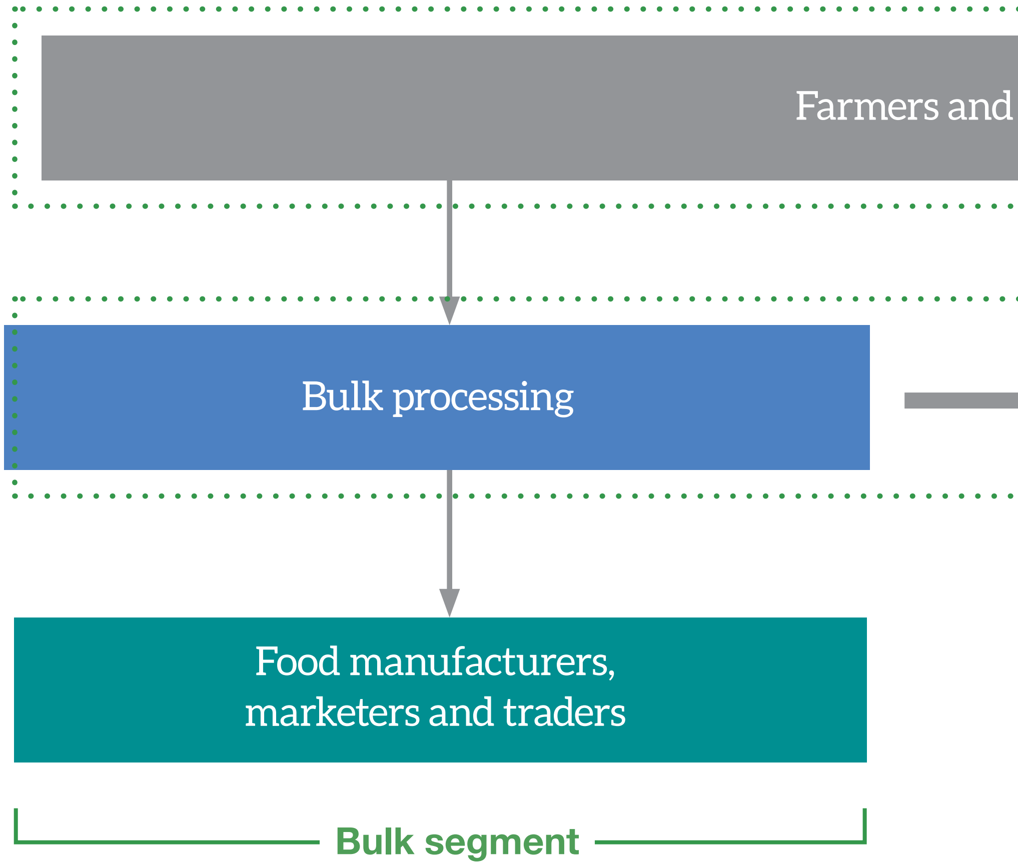
Bega's business model focuses on four core capabilities which represent our integrated value chain. These are supported and enabled by a high performing and capable team, while our values guide our growth in a sustainable and ethical way. This also defines how our activities are grouped as part of segment reporting.

Bega maintains strong relationships with farmers and other suppliers which ensures provenance and quality throughout the supply chain. Through our Bega Better Farms program, we work closely with our suppliers to support sustainable farm practices.

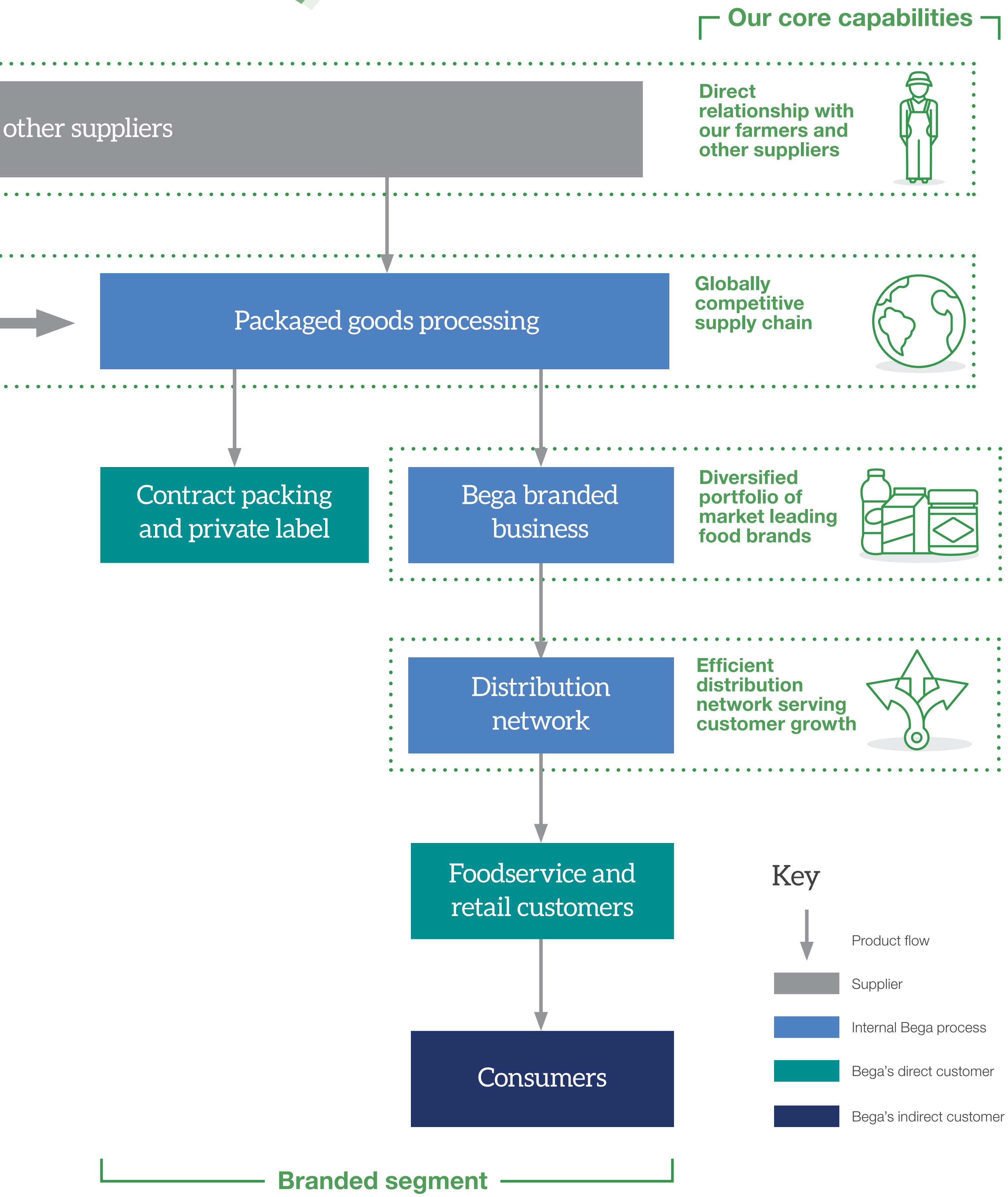
Our bulk business incorporates large-scale and efficient ingredient processing facilities that provide security of supply for our branded business. These bulk processing facilities also utilise capacity to manufacture and sell ingredient and nutritional products to a range of food manufacturers, marketers and traders.

Our branded business incorporates packaged goods processing facilities and a portfolio of heritage Australian brands with category leadership positions. Our branded products are sold to a wide range of retail and food service customers in Australia and in export markets through an efficient distribution network. The scale of the branded business supports continuous investment in consumer research, product innovation and marketing. In order to maximise the utilisation and efficiency of our packaged goods processing facilities, we also contract pack and toll process products for a range of customers under long-term contractual arrangements.

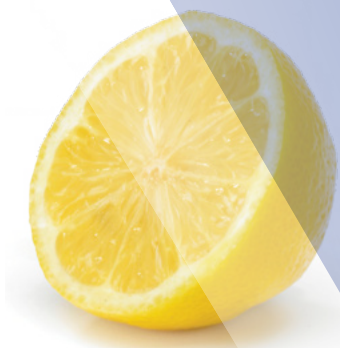
The acquisition of the Lion Dairy and Drinks business provides operational synergies and an enhanced flexible, integrated supply chain. This enables us to manage milk and ingredients across the network in the most effective way and ensures our bulk and branded businesses work together to reduce cost and to maximise the value we can extract from ingredients. The acquisition also increases our customer reach through a highly efficient national chilled distribution network, which provides opportunities to further leverage our combined brand and product portfolio.



> "The acquisition of Lion Dairy and Drinks strengthens our value chain and builds on our core capabilities."


Our core capabilities
other suppliers
Direct relationship with our farmers and other suppliers
Packaged goods processing
Globally competitive supply chain
Contract packing and private label
Bega branded business
Diversified portfolio of market leading food brands
Distribution network
Efficient distribution network serving customer growth
Foodservice and retail customers
Consumers
Key
Product flow
Supplier
Internal Bega process
Bega's direct customer
Bega's indirect customer
Branded segment

Australian retail categories and consumer brands



Portfolio of leading iconic brands in seven key consumer categories. Many of these brands have become trusted household names by generations of consumers. This portfolio creates a strong foundation for growth and value creation.

As part of our vision to become The Great Australian Food Company, we aspire to being the number one or two brand owner in multiple categories over $500 million.

Category	Category size $m[1]	Category growth[1]	Bega share[1]	Brand portfolio
Fresh white milk[2]	1,913	0.4%	13%	Dairy Farmers, PURA, Masters M, Complete Dairy
Yoghurt	1,472	4.7%	26%	Farmers Union, Dairy Farmers, Yoplait, The Culture Co.
Milk based[2] beverages	836	5.6%	50%	Dare, Iced Coffee, Masters M, Dairy Farmers, Big M
Spreads	633	1.7%	31%	Vegemite, Bega Peanut Butter, Bega Simply Nuts, B Honey
Chilled juice	605	3.9%	24%	Daily Juice Co, The Juice Brothers, Mildura
Creams and custards	509	5.5%	11%	Dairy Farmers, PURA
Water ice	50	-8.5%	82%	Zooper Dooper, Berri

Benefits of breadth and scale

The categories cover a broad spectrum of consumer needs, uses, consumption occasions and sales channels. Our brand and product portfolio increases our relevance with customers and creates innovation and further growth opportunities. A strong brand and consumer products portfolio ensures the business is more resilient and enables us to move up the value chain. The scale of our consumer products portfolio has also created efficiencies in marketing activity, with learnings from trends, innovation and consumer insights often having relevance across multiple categories. Bega is also represented in the growing plant-based food segment through our investment in the Vitasoy joint venture.

Sustainability as a growth driver

Today, consumers seek brands and ingredients that are natural, healthier, less processed, and sustainably sourced. Most of our brands contain ingredients sourced directly from farmers. This direct connection to source and Bega's focus on farming sustainability becomes a driver for brand growth.

Future focus

Further growth will be realised through:

Taking our brands to new consumers, markets and channels. We can now reach a larger customer and consumer base with an enhanced product offer by utilising our expanded distribution network and sales capability in Australia and internationally.

Innovating beyond the core with new products. The combined marketing capability, sharing of consumer insights and technical knowledge will unlock new product innovation and ways to generate consumer demand.

[1] Data extracted from IRi Total Business Scan (AU Grocery Unweighted + Structured Convenience), MAT to June 2021 and AC Nielsen Scan data MAT to June 2021

[2] Excludes non dairy

BRAND SPOTLIGHT

Farmer's Union

With a 132 year heritage, Farmers Union is Australia's most loved plain Greek-style yoghurt[1]. Yoghurt continues to be a growth category, and Farmers Union is well-positioned with its 24 product portfolio, generating a 6.7% increase in estimated retail sales to $137m[2]. See **www.farmersunionyogurt.com.au**

1 Iri Aztec In-Home Panel database, based on the percentage of households that purchased MAT to 20 June 2021

2 IRi Total Business Scan (AU Grocery Unweighted + Structured Convenience), MAT to June 2021

Review of Financial Performance and Operations

Key highlights

The Bega Cheese Group took a significant step towards achieving its strategic objectives in the second half of the FY2021 through the acquisition of 100% of the Lion Dairy and Drinks business for $528.2 million. After a taking control of the business in January, management implemented a 100-day action plan and in late FY2021 commenced a stream of work focused on realising synergies. This work involved organisational change, rapid procurement negotiations and milk optimisation across the network.

This synergy program is on target to achieve the $41 million of annualised benefits announced to the market and $36 million of synergies in the first full year of ownership.

The transition of the Group into a branded domestic food supplier has helped mitigate fluctuations in commodity and foreign exchange pricing and softness in the infant formula market. The Group completed an organisational review in 1H FY2021 and completed the lactoferrin plant at Koroit which was operational throughout FY2021.

Finance and operational overview

Bega Cheese generated top line statutory revenue of $2.07 billion, up 39%, statutory EBITDA of $182.7 million, up 108%, statutory profit after tax of $72.2 million, up 239% and statutory earnings per share of 27.3 cents (FY2020 9.9 cents).

As in previous years, the Group will report on both the statutory result and the normalised result for FY2021 compared to the prior year. Commentary in this report focuses on the normalised result. The normalising adjustments to the statutory results are detailed in the table on page 25.

Bega Cheese generated normalised EBITDA of $141.7 million, up 38%, normalised profit after tax of $39.6 million, up 24% and normalised earnings per share of 15.0 cents (FY2020 14.9 cents).

The Group faced a number of challenges throughout FY2021. These included:

- strong competition for milk supply and increases in farm gate milk prices
- strengthening Australian dollar impacting USD denominated commodity sales
- infant formula, particularly in China impacting customer volume requirements
- reacting to the unpredictable nature of COVID-19 transmission in the community
- volatile sales across the Foodservice channel impacted by COVID-19 restrictions

Despite these challenges, the Group was able to more than mitigate these through:

- rapid integration of Lion Dairy and Drinks and achievement of synergy target run rates
- maximising production and a full year earnings from the new Lactoferrin plant at Koroit
- strong retail sales volume and mix across the branded segment in retail
- favourable sales pricing on commodity sales within the bulk segment
- achievement of organisational cost savings programmes
- continuous improvement cost savings across the manufacturing and supply chain network
- settlement of Kraft Heinz legal proceedings.

Bega Cheese continues to maintain a strong balance sheet, with normalised EBITDA to net debt ratio down to 2.25 times, well within covenant limits notwithstanding the acquisition of Lion Dairy and Drinks for $528.2 million. This acquisition was mostly funded through a net capital raise of $392.7 million in December 2020.

The Group received 1.12 billion litres of milk during FY2021, up 17% on the 955 million litres received in FY2020, including milk procured in Bega Dairy and Drinks from the date of acquisition. The Group acknowledges the loyalty of our milk suppliers and welcomes new suppliers.

The Group continues to make significant progress towards achieving its key strategic objectives.

The strategic pillars that underpin those objectives are:

- a diversified portfolio of market-leading food brands
- an efficient distribution network servicing customer growth
- a globally competitive integrated supply chain
- direct relationships with farmers and suppliers.

Progress towards achieving strategic objectives

Diversified portfolio of market leading brands

With the November 2020 acquisition of Lion Dairy and Drinks (completed in January 2021), Bega Cheese accelerated progress towards its goal of having 75% of all revenue generated through branded product, finishing the year with 73% of sales derived from branded business, up from 59% in the prior year.

Bega now holds the number one or two market share position in Australia across flavoured milk beverages, yoghurt, and table spreads.

The increase in scale and expertise arising from the Lion Dairy and Drinks acquisition will project the business to new levels of product development whilst increasing execution capability on market launches.

The business released a new Vegemite Squeeze format during the year and continued to grow B honey, with Woolworths and Metcash now carrying the range. Capitalising on the growing trend of healthier foods and the shift to easier more convenient ways of eating and snacking, the business:

- launched new flavours and a new 4x110g pack format in its Dairy Farmers range

- expanded the 500ml Farmers Union Greek Yoghurt with lactose-free, protein and vitamin D offerings
- entered the 150g segment with a no added sugar fruited offering in its Yoplait range, and
- expanded its range of Yoplait Petit Miam, No Added Sugar and Famers Union Greek Yoghurt kids snacking yoghurt (pouches).

In milk-based beverages the company launched new salted chocolate and white chocolate flavoured milk products in its Dairy Farmers branded range and maintained the momentum of growth in the Dare brand with the development of No Sugar Added products and a rotation of new flavours.

The success of these launches capitalises on opportunities in the growing yoghurt and milk-based beverages product categories and marks the way for additional capital spend into yoghurt which is an area of strategic importance.

Globally competitive integrated supply chain

The acquisition of Lion Dairy and Drinks accelerated the Company's transformation from a predominantly dairy based business to one of the largest and growing Australian-owned diversified food companies, with a strong mix of high value-add iconic branded products and one of the largest cold chain distribution networks in Australia.

Bega now has a fully integrated supply chain from farmer to consumer across dairy, citrus and nut-based products. This creates the opportunity for Bega to add value at each stage in the product life cycle and seek out opportunities as they arise across retail branded and commodity markets.

Bega now has access to more profitable revenue streams for its milk. The milk value stream can be maximised by avoiding waste and secondary market reduced pricing. With multiple product streams across 20 manufacturing facilities around Australia, Bega can also now balance fat and protein between product categories and different sites, to optimise returns. Bega now has a far broader dairy collection network. This provides increased access to dairy areas such as Gippsland and Tasmania, creating a larger and more resilient milk pool.

Direct relationships with our farmers and suppliers

Bega deals directly with approximately 1,100 dairy, fruit and peanut growers across Australia. These farmers produce approximately 1.5 billion litres of milk and 59,000 tonnes of peanuts, oranges, apples and pears between them.

These direct farming relationships allow Bega to have provenance with most of the product that it produces. It also allows for genuine, meaningful relationships to be struck with suppliers. That creates the opportunity for Bega to support sustainable and responsible farming of produce.

Bega conducted a number of programs during the year to support farmers. These included:

- grower advances for peanut farmers to cover initial planting costs
- seasonal loans for dairy farmers and payments structures that are sympathetic to seasonal requirements
- agronomy services for peanut growers provided by three Bega agronomists that work with farmers directly on best practice
- environmental consulting and financial support for key projects, and
- budget and farm planning services.

Efficient distribution network servicing customer growth

The acquisition of Lion Dairy and Drinks increased the Group's distribution and reach. This enables Bega to offer customers a better customer proposition at a more efficient cost.

Bega has 133 logistics locations across Australia servicing more than 30,000 customers across all states. These logistics locations form one of the largest cold chain distribution networks in the country, with unparalleled connectivity between metropolitan, satellite and regional Australia. The network has the capability to deliver 3,200 truckloads per week and 850 million litres of product annually. This provides Bega with the capability to serve most of Australia's population via a range of freight options from large vehicles or rail through to small route trucks and coastal freight. Bega's salesforce calls on these customers either in person or through a corporate call centre and has a robust technology platform in place to manage orders, delivery and payment. A significant portion of the network only transacts and delivers a small sample of the Group's product range, providing opportunity for further cross sell of Bega products, and improved utilisation of this asset base.

Bega Cheese is a truly national supplier in a fragmented industry. The business continually assesses opportunities to optimise this distribution network, improve the customer experience and innovate its customer service proposition to better meet the needs of customers and consumers.

Significant events

Integration

To support the integration of Lion Dairy and Drinks, Bega Cheese embarked on a 100-day plan upon taking control of the business. The 100-day plan focused on organisational change, synergy benefits and integration of key policies and controls to ensure a strong governance framework is maintained across the business. This in turn gave rise to streams of work to deliver the synergy targets communicated to the market at the time of acquisition. These streams include:

- An organisational review to assess the combined organisation structure and assist with potential efficiencies. This process included benchmarking costs against global best practice. As a result, the Group identified and addressed opportunities across finance, technology, sales, engineering and other central services and benefits from these changes have already started to flow for FY2022.
- An assessment of common suppliers to identify cost savings in the areas of technology and personnel services, packaging and media.
- A consolidation of logistics and warehousing with a number of contract negotiations planned for the first half of FY2022.
- Identification of the most effective permutations on milk flow through our manufacturing assets for return optimisation. The broader processing capability and end-product optionality across the Group post-acquisition means a far more effective use of milk solids.

Bega entered into a transition services agreement with Lion for fifteen months after acquisition date. This transition services agreement covered the provision, by Lion, of some accounting services such as treasury and accounts payable, payroll services and the hosting and application management of technology services. At the end of the FY2021 Bega has transitioned all services except for technology.

Bega has also commenced planning a final Enterprise Resourcing Platform solution for migrating the businesses onto a single platform.

COVID–19

The Group continually navigated uncertainty in its supply chain and customer base throughout FY2021. However, none of the issues that arose due to COVID-19 materially impacted the performance of the business.

The safety and wellbeing of Bega's employees, suppliers, customers, and communities was and remains the highest priority.

Measures with which the Group responded to the COVID-19 pandemic include:

- COVID-19 safety plans for all sites and documentation of a comprehensive set of policies and procedures for staff to use. These have been audited by WorkSafe.
- Formal contract tracing for our employees where there is potential that they have visited COVID-19 exposure sites.
- A COVID-19 special leave policy to enable employees to stay at home if unwell, or be tested, without financial disadvantage. This leave can also be used when employees choose to get vaccinated.
- Segregation of shifts and people, and where possible, separate amenities and zones for contractors and transport drivers.
- A COVID-19 executive crisis committee to manage our response consistently across the business and to external stakeholders.

Maintaining Bega's supply chain efficiency during lockdown has been a challenge, with close contact isolation requirements having the potential to dramatically reduce plant and warehouse capacity. There has also been significant pressure on some of our suppliers and service providers. Bega has mitigated much of this risk to date through its diversified manufacturing footprint, strong internal controls and extensive distribution network.

Safety

Safety is fundamental to our business and we recognise our current Total Reportable Injury Frequency Rate (TRIFR) needs to improve. We are committed to ensuring a healthy and safe work environment for our employees, contractors and visitors to our sites. Our safety culture encompasses our employees' beliefs, values and attitudes with respect to safety and this helps ensure we effectively manage any safety risks present in our activities.

The integration of the Bega Dairy and Drinks business is a key area of focus for our safety program. We have rolled out a safety behavioural leadership program facilitated by DuPont Sustainable Solutions which has progressed significantly at Bega Dairy and Drinks' sites.

Employee relations

Over the course of FY2021 we negotiated seven enterprise bargaining agreements across our sites. These agreements are very important for both our employee groups and the Company. They ensure our collective interests are considered and aligned. They could not be achieved without the significant contributions made by all our Group employees and union representatives involved. There are 15 agreements due for negotiation and renewal in FY2022.

Sustainability

This year we have championed a pilot program in the Bega Valley to create the most "circular" region in the world. Further detail about this innovative initiative can be found in the Chairman's Report and on pages 14 to 15 of this year's Annual Report.

Environmental regulations and management - Legislative framework

Our business is subject to multiple Federal and State Environmental Acts and Regulations. These include reporting and other requirements under the National Greenhouse and Energy Reporting Act 2007 (Cth), the Clean Energy Act 2011 (Cth), the Protection of the Environment Operations Act 1997 (NSW), Environment Protection Act 1993 (SA), the Environment Protection Act 1970 (Vic), the Environmental Management and Pollution Control Act 1994 (Tas), the Environmental Protection Act 1986 (WA), the Environmental Protection Act 1994 (Qld) and the National Environment Protection Measures.

The Group's manufacturing sites are licensed under State Environment Protection Regulations. The licences stipulate performance standards as well as specific monitoring requirements for emissions such as noise, air, odour and wastewater. We are pleased to report there were no infringements or notices from the relevant Environment Protection Authorities during FY2021.

In addition, during FY2021, the Group complied with all statutory and voluntary environmental reporting requirements and continues to monitor and report energy intensity and greenhouse gas emissions.

Major environmental initiatives

Initiatives to improve our environmental performance during FY2021 include:

- Obtaining funding through the Victorian Government's Business Recovery Energy Efficiency Fund to develop a five year 'Energy Productivity & Emissions Reduction Roadmap'.
- Implementing a standard supplier on-boarding platform at the start of the year to enable us to assess all current and potential suppliers against the requirements outlined in our Ethical Sourcing Policy.
- Achieving Roundtable on Responsible Palm Oil (RSPO) Supply Chain Certification (SCC) for relevant manufacturing sites, with Bega (Ridge Street) being the first of these, certified in July 2020 and our Strathmerton site gaining certification in June 2021.
- Completing a research program to successfully test the production of high-density polyethylene two and three litre milk bottles with a high level of recycled content.
- Completing our transition away from PVC cheese slice clamshells, having approved the use of PET across all of our cheese slice clamshell packaging. We also launched recycled PET ('rPET) cheese slice clamshells with Woolworths, to include 30% post-consumer 'rPET'.

Supporting farmers

As required by the Dairy Industry Code of Conduct, there are Standard Form Agreements for all new agreements that Bega Cheese Limited, Tatura Milk Pty Ltd and Bega Dairy and Drinks Pty Ltd enter into with dairy farmer suppliers.

These are available on our website at: www.begacheese.com.au/farm-services/milk-supply-agreements/

Our Bega Better Farms program, commenced in 2018, helps dairy farmers develop and improve their businesses through capital grants, advice and training. Our field officers assess applications against the expectations of our farm report checklist and work to identify opportunities for improvement.

This year we launched a consumer-facing Better Farms Program website which tracks the program's achievements highlighting them to Australian consumers. We also commissioned an independent, third-party audit to assure our stakeholders that grants under the program are allocated to eligible farms, and that funds are spent on agreed projects. This information is also publicly available on the website. We look forward to expanding this program to our Bega Dairy and Drinks suppliers.

Modern Slavery prevention

Bega Cheese completed its first Modern Slavery Statement in March 2021 which was in relation to FY2020. Prior to the acquisition of Lion Dairy and Drinks, Point Advisory a sustainable strategy consultancy company was engaged to assess the risks of modern slavery on our supply chain. The final report includes several recommendations which are to be implemented over the next two years. The program has now been expanded to include Bega Dairy and Drinks. The Bega Cheese Ltd Modern Slavery Statement for FY2021 is expected to be finalised towards the end of the 2021 calendar year.

Insurance matters

General insurance premiums continued to be impacted by a high number of global claims particularly in the Food and Beverage sector where many manufacture and storage facilities are constructed from expanded polystyrene panel which is a concern for underwriters. Directors and Officers insurance premiums also came under significant pressure due to the high level of claims incurred by underwriters.

Bega appointed new brokers in 2020 which assisted with the restructure of the Group's insurance program enabling premium increases to be kept to a minimum in FY2021. Prior to the acquisition of Lion Dairy and Drinks general insurance premiums totalled $17.2 million for the year. Additional premiums of $6.8 million were incurred when Lion Dairy and Drinks was added to the insurance program on 25 January 2021.

While the general insurance market continues to experience rate increases and capacity pressure in the FY2022 renewal period, we were pleased with the outcome achieved with the assistance of our brokers. The Group plans to introduce a captive during FY2022 with the objective of driving further structural change in our general insurance strategy which we expect will result in more favourable premium outcomes in the future.

Legal action

Kraft

In November 2017, Kraft Foods Group Brands LLC and H.J. Heinz Company Australia Limited (collectively referred to as Kraft Heinz) commenced proceedings against Bega Cheese claiming that they were the rightful owner of the trade dress (yellow lid, clear jar, yellow label with red or blue peanut device) of the Bega Cheese peanut butter products.

In 2019, the Federal Court of Australia determined that Bega Cheese was the rightful owner of the relevant rights in the peanut butter trade dress and ordered that Kraft Heinz may not use, sell or advertise and promote its own peanut butter products using the Bega trade dress. This decision was upheld by the Full Court of the Federal Court in 2020.

Kraft Heinz filed an application in the High Court of Australia seeking special leave to appeal from the judgment of the Full Court of the Federal Court. On 13 November 2020, the High Court dismissed this application. The decision of the Full Court of the Federal Court stands and confirms Bega Cheese's ownership of the trade dress rights.

In June 2021, Bega Cheese entered into a confidential settlement with Kraft Heinz for monetary relief and legal costs payable in respect of the legal proceedings. Under the terms of settlement, Kraft Heinz paid $9.25 million to Bega Cheese. Bega Cheese received these monies in June 2021.

Given the settlement agreement, the Federal Court proceeding to determine costs and damages has now been dismissed. In addition, court proceedings in New York have been closed and the New York arbitration file has been dismissed. The two New York proceedings, related to the claims made by Kraft Heinz regarding the trade dress, but were put on hold pending the outcome of the Australian Federal Court proceedings. This resolves all outstanding issues relating to the Kraft Heinz dispute.

Fonterra

In 2017, Fonterra Brands Australia commenced legal proceedings in the Supreme Court of Victoria in relation to the scope of the 2001 trademark licence between Bega Cheese and Fonterra. On 25 February 2021, the Supreme Court of Victoria held that Bega Cheese, as owner, is entitled to use the Bega trademark on those of its products that are outside the scope of the Fonterra licence, without Fonterra's consent.

Fonterra has an ongoing exclusive licence to use the Bega trademark on natural cheddar cheese, processed cheddar cheese, string cheese and butter. Bega Cheese's counterclaims in respect of alleged breaches of the trademark licence by Fonterra were dismissed. Neither party appealed the decision. The Court ordered that Fonterra pay Bega Cheese's costs in relation to the claim and that Bega Cheese pay Fonterra's costs in relation to the counterclaim. The amounts payable by the parties have not yet been determined.

Termination of customer contract

In the second half of FY2021, one of the Group's major customers, Reckitt, notified the Group that two arrangements will cease ahead of their contractual expiry date. The first relates to an access and services agreement at a plant in Derrimut which will end in October 2021, prior to its original end date of December 2026. The second relates to the Tatura MSD2 dryer access and services agreement that will end in January 2022, prior to its original end date of December 2026.

To compensate for the loss of future earnings, the Group expects to receive contractual termination fees totalling $55.5 million in relation to both arrangements across FY2021 and FY2022. The Group is currently considering any potential implications of the termination for infant formula products as well as cost out initiatives.

Dividends paid in FY2021

On 27 August 2020 Bega Cheese declared a final FY2020 fully franked dividend of 5.0 cents per share, representing a distribution of $10.7 million. The Directors activated the Group's Dividend Reinvestment Plan (DRP) for this dividend. The DRP, offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares purchased under the DRP were allotted on 7 October 2020 and raised $0.8 million in new share capital.

On 24 February 2021 Bega Cheese declared an interim fully franked dividend of 5.0 cents per share, representing a distribution of $15.1 million. The Directors again activated the Group's DRP for this dividend. Shares purchased under the DRP were allotted on 26 March 2021 and raised $1.7 million in new share capital.

On 27 August 2021 Bega Cheese declared a final fully franked dividend of 5.0 cents per share representing a distribution of $15.1 million, an increase of $4.4 million compared to the 2020 final dividend. The DRP will also be available for this dividend.

Dividends paid to shareholders in relation to the FY2021 year will total $30.2 million which represents an $8.8 million increase over the dividends paid in respect of FY2020 which totalled $21.4 million.

Reconciliation of statutory and normalised performance

As in previous years, the Group will report on both the statutory result and the normalised result for FY2021 compared to the prior year. Commentary in this report focuses on the normalised result.

GROUP STATUTORY RESULT FY2021

On a statutory reporting basis, the Group generated:

$ million	FY2021	FY2020
EBITDA	$182.7	$87.8
EBIT	$107.7	$42.0
PBT	$97.4	$31.0
PAT	$72.2	$21.3
EPS	27.3 cents	9.9 cents

GROUP NORMALISED RESULT FY2021

The statutory result for the Group in each of FY2021 and FY2020 included several one-off items, most of which related to corporate activity. While these items all had a financial impact on the statutory performance of the Group, they do not affect the underlying financial performance of the business.

To provide a more meaningful understanding of the underlying financial performance, we have made normalising adjustments to the statutory financial statements for each of these items. These are set out in more detail in the table on page 25. On a normalised basis the Group generated:

$ million	FY2021	FY2020
EBITDA	$141.7	$103.0
EBIT	$68.8	$57.2
PBT	$60.1	$46.2
PAT	$39.6	$31.9
EPS	15.0 cents	14.9 cents

MATERIAL ITEMS IMPACTING GROUP NORMALISED RESULT FY2021 AND PRIOR YEAR

Normalising adjustments in FY2021 consist of the following:

- One off costs incurred in relation to the evaluation, acquisition and integration of Lion Dairy and Drinks totalling EBITDA of $62.2 million, including stamp duty, acquisition transaction costs, debt funding (where not allocated against liabilities), excess transition services arrangement charges from Lion, consultancy and legal, redundancy, separation costs, and project team resourcing.
- Provisional gains relating to the acquisition of Lion Dairy and Drinks of $70.0 million which includes a bargain purchase gain of $67.7 million.
- Income associated with the termination of the Derrimut and MSD2 access and services agreement by Reckitt is expected to be a total of $55.5 million across FY2021 and FY2022. EBTIDA of $29.8 million has been recognised in FY2021 and a remaining $25.7 million is to be recognised in FY2022.
- Proceeds from the legal settlement with Kraft Heinz for monetary relief and legal costs of $9.3 million.
- Other costs include expensing of certain Software as a Service (SaaS) applications under a revised accounting policy, one-off legal and other expert advisory fees relating the Kraft Heinz and Fonterra proceedings and the impairment of obsolete equipment assets.

The table below demonstrates the movement between the financial performance for statutory reporting purposes and the normalised financial performance for the Group. These adjustments have not been subject to specific audit procedures.

Consolidated	Per Financial Statements $m	LDD Transaction Related Costs $m	Gains Relating to LDD Acquisition $m	Reckitt Termination Fees $m	Kraft Legal Settlement $m	Other Costs $m	Normalised Outcome $m
Period ending 30 June 2021							
Revenue	2,073.4	-	-	(13.9)	-	-	2,059.5
Cost of sales	(1,608.2)	-	-	-	-	-	(1,608.2)
Gross profit	**465.2**	-	-	**(13.9)**	-	-	**451.3**
EBITDA	182.7	62.2	(70.0)	(29.8)	(9.3)	5.9	141.7
Depreciation, amortisation and impairment	(75.0)	-	-	-	-	2.1	(72.9)
EBIT	107.7	62.2	(70.0)	(29.8)	(9.3)	8.0	68.8
Net finance costs	(10.3)	1.6	-	-	-	-	(8.7)
Profit before income tax	**97.4**	**63.8**	**(70.0)**	**(29.8)**	**(9.3)**	**8.0**	**60.1**
Income tax expense	(25.2)	(4.7)	-	8.9	2.8	(2.3)	(20.5)
Profit for the year	**72.2**	**59.1**	**(70.0)**	**(20.9)**	**(6.5)**	**5.7**	**39.6**
Gross margin - percentage	**22.4%**						**24.2%**
Basic earnings per share - cents	**27.3**						**15.0**

Consolidated	Per Financial Statements $m	Koroit Acquisition Costs $m	Legal Costs $m	Other Costs $m	Normalised Outcome $m
Period ending 30 June 2020					
Revenue	1,493.2	-	-	-	1,493.2
Cost of sales	(1,204.2)	-	-	-	(1,204.2)
Gross profit	**289.0**	-	-	-	**289.0**
EBITDA	87.8	0.3	9.6	5.3	103.0
Depreciation, amortisation and impairment	(45.8)	-	-	-	(45.8)
EBIT	42.0	0.3	9.6	5.3	57.2
Net finance costs	(11.0)	-	-	-	(11.0)
Profit before income tax	**31.0**	**0.3**	**9.6**	**5.3**	**46.2**
Income tax expense	(9.7)	(0.1)	(2.9)	(1.6)	(14.3)
Profit for the year	**21.3**	**0.2**	**6.7**	**3.7**	**31.9**
Gross margin - percentage	**19.4%**				**19.4%**
Basic earnings per share - cents	**9.9**				**14.9**

Cash flow, net debt and group capital management

Cash flows

The Group generated the following cash flows in FY2021:

$ million	FY2021	FY2020
Operating activities	$111.4	$138.0
Investing activities	($546.7)	($52.9)
Financing activities	$499.6	($91.0)

Key operating activities generating cash flow in FY2021 were:

- net profit after tax and after adjusting back non-cash items of depreciation and amortisation and the gains from the acquisition of Lion Dairy and Drinks of $75.0 million
- improvement in working capital of $13.9 million through strong receivable and creditor management.

Key investing activities generating cash flow in FY2021 were:

- payment of $514.5 million (after cash acquired) for the acquisition of Lion Dairy and Drinks
- payments totalling $22.2 million for capital investment
- payments totalling $10.0 million for investments in software.

Key financing activities generating cash flow in FY2021 were:

- net proceeds from the capital raise and issue of shares of $390.2 million to fund the Lion Dairy and Drinks acquisition
- increase in net borrowings of $145.0 million to fund balance of the Lion Dairy and Drinks acquisition not funded through capital raise
- dividend payments of $23.3 million.

Net debt at year end

Bega Cheese Group had consolidated net debt of $324.9 million as of 30 June 2021, compared to $231.2 million at 30 June 2020, an increase of $93.7 million. The significant movement in net debt arose from $125.1 million of net proceeds from borrowings to partially fund the acquisition of Lion Dairy and Drinks, capital and software investment of $32.2 million, dividend payments of $23.3 million, principal lease payments of $12.3 million and additional unrecognised bank guarantees of $13.0 million. These increases were partially offset by operating cash inflows of $111.4 million.

Balance sheet capital management

The Group continues to receive support from its bankers and has the following facilities:

- a primary Syndicated Debt Facility with Coöperatieve Rabobank U.A. (Rabobank Australia Branch) and Westpac Banking Corporation (Syndicate Bankers)
- an Inventory Facility and a Trade Receivables Facility provided by Rabobank, and
- other guarantee facilities provided by Westpac.

In December 2020, the Group undertook a successful capital raise to help fund the acquisition of Lion and Dairy and Drinks, with the balance of purchase price funded from debt.

In August 2021, the Group renewed the Rabobank Trade Receivables Facility, with an expiry date of 31 January 2023. Syndicated facilities one and two were successfully refinanced with Rabobank and Westpac on 23 December 2020. Facility 1 increased from $70.0 million to $140.0 million; Facility 2 remains at $140.0 million and both facilities were extended to mature on 10 November 2023.

Notwithstanding the acquisition of Lion Dairy and Drinks, the normalised EBITDA to net debt leverage ratio reduced from 2.35 times to 2.25 times and is well within year end bank covenant requirement of 3.0 times. Bega Cheese expects its leverage ratio to continue to trend favourably throughout FY2022 and is very well placed to meet future covenant requirements.

Capital investment

Bega Cheese Group capital expenditure in FY2021 totalled $26.8 million (FY2020: $42.2 million). The Group's FY2021 capital works programme centred on:

- infrastructure upgrades across various sites
- installation and commissioning of equipment to support new product innovation such as Vegemite Squeeze
- various projects to improve safety
- implementation of energy saving initiatives across multiple locations to reduce costs.

Commentary on other investing activity

Capitol Chilled Foods

The Group increased its shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra, from 25% to 100% via the acquisition of Lion Dairy and Drinks (who owned the other 75%).

180 Nutrition

Effective November 2020, the Group acquired the remaining 39% share in 180 Nutrition Pty Ltd, increasing its controlling share to 100%. In June 2021, five 180 Nutrition Protein bars and blends were ranged in Coles.

Risk management

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 and that the Group is operating with due regard to the risk appetite set by the Board, including in respect of contemporary and emerging risks such as conduct risk, digital disruption, cyber-security, privacy and data breaches, sustainability and climate change. A review has been carried out by the Board during the 2021 financial year reporting period.

The CEO and CFO have reported to the Board on the effectiveness of the 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 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 Group Internal Audit Manager 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. Key financial and non-financial risks are included on page 28 to 30.

Key financial and non-financial risks include:

Strategic risks	
Sources of risk	**Risk mitigation strategies**
Geopolitical Tensions Escalation of trade tensions with China to a point where Australian (or New Zealand) dairy products are locked out.	• Diversification of revenue mix through the Lion Dairy and Drinks acquisition and a reduction in revenue exposure to China. • A focus on building nutritional markets in new regions. • Growing international footprint in new markets. • 'On the ground' employee presence in developing markets.
Lion Dairy and Drinks Integration Failure to successfully integrate acquired businesses impacting synergies, cultural alignment, and long-term value creation.	• The business has engaged external specialists to support the integration, with a focus on key areas of opportunity such as finance, procurement, and organisational development. • A steering committee is in place to oversee the integration. Committee members include Non-Executive Directors.
Customer Diversity Too much dependency on major domestic supermarkets and a concentration of retail customers, resulting in lost growth opportunities.	• International growth strategy inclusive of an increasing in-market presence within key international markets. • Growing non-retail product mix. • Acquisition of Lion Dairy and Drinks has resulted in a far larger and more diverse customer base than previously existed.
Dairy Returns and Milk Supply Competitive returns on product mix may significantly impact Bega Cheese's ability to acquire milk.	• Emphasis on maintaining strong farmer relationships and delivering a competitive farm gate milk price. • More geographically diverse spread of site assets. • Focus on higher returning dairy categories.

Technology risks	
Sources of risk	**Risk mitigation strategies**
Cyber Security A cyber security event or attack materially affecting operations and involving significant remediation resources.	• Bega has aligned its technology processes to the ISO 27001 Information Security Management System (ISMS) standard and has adopted the NIST CSF (Cyber Security Framework). NIST ensures a standard approach to activities of identifying security risks, implementing security controls and monitoring cyber resiliency. • Periodic reviews of our NIST rating is conducted by an external assurance provider. • A cyber security dashboard is provided to the Executive and Audit and Risk Committee. • NIST maturity evaluation and improvement plan. • Cyber security insurance coverage is in place. • Real-time analysis of security alerts generated by applications and network hardware. • Anti-virus and anti-malware software in place and regularly updated along with 'Endpoint Detection and Response' as additional layer of protection. • Secure Email Gateway reduces the risk of malware and phishing emails. • Organisation-wide awareness and training programs. • Enterprise-wide backup and system recovery solution in case of cyber event.
Ageing Technology Infrastructure Failure of technology used corporately and within our sites due to it not being maintained or renewed on a regular basis.	• Technology-based infrastructure renewal process. • Operational technology is reviewed and upgraded in conjunction with industry standards. • Corporate systems have been converted to a cloud-based solution. • Enhancements to corporate system infrastructure is subject to regular review and approval processes.

Operational risks	
Sources of risk	**Risk mitigation strategies**
COVID-19 Exposure Presence of COVID-19 resulting in the loss of multiple site workforces, or a severe supply chain disruption impacting commercial viability.	**Risk Mitigation Activities** • Group wide COVID-19 response plans and policies. • Cross functional management response team that oversees the appropriate management of employees. • Executive led Crisis Management Team meeting regularly for the duration of the pandemic. • Site COVID-19 self-assessment process that is overseen by internal audit. • Global monitoring of key ports. • Business continuity plans referencing production and supply chain alternatives in the event of a disruption.
Substantial changes in consumer demand resulting from government imposed pandemic restrictions impacting sales.	• Focus on channel and product diversity to meet fluctuations in consumer behaviour • Leverage extensive manufacturing and distribution network to ensure available product supply
Health and Safety Management Serious harm to employees, visitors, or contractors due to poor safety systems or culture.	• Executive level performance measures include safety performance. • Comprehensive safety management systems inclusive of incident management. • Capital approval process that prioritises safety investment. • Frequent reporting of safety performance to the Board. • Engagement of external specialists to support ongoing improvement.
Major Food Safety Event A major food safety event due to the provision of out of specification product to market that results in serious injury or illness to consumers.	• Immediate escalation of potential major incidents to members of the Executive and if required the Board. • Frequent external reviews of premises by external parties (including major supermarket customers). • Product recall process that is frequently tested and reviewed. • Mature quality management system that is compliant to international standards. • Appropriate food safety certifications held. • Regular process of quality-based internal audits on third party warehouses and suppliers of materials.
Natural Disaster Management A major disaster that results in the loss of at least one site.	• Business continuity plans (BCP) that provide redundancy in terms of production, critical staff, and the procurement of materials. • Emergency response plans that are regularly tested. • Industrial special risks insurance coverage that is regularly reviewed. • System back up plans in the event of a major loss of technology. • Increased number of sites (due to the Lion Dairy and Drinks acquisition) across multiple regions dilutes the impact.
Environmental Impact On-going (or major) environmental issues that result in community outrage and/or penalties.	• Environmental 'hotline' reporting process. • Board oversight of environment incidents and action taken. • Monitoring of changes in environmental legislation. • Regular community engagement. • Internal and external environmental audits of sites. • Training of site-based staff. • Environmental incident reporting process and site based operating standards.

People risks	
Sources of risk	**Risk mitigation strategies**
Underpayment of Employees Material underpayment of employees resulting in a sub-optimally motivated and productive workforce, penalties and reputation loss.	• Use of third-party specialists to monitor compliance. • Internal reconciliations of payroll. • Regular review of employee terms of employment to Awards and National Employment Standards. • Improved access to payroll information through implementation of Workday • Incident response process that prioritises payroll related matters.
Culture Inconsistent behaviour and ways of working (culture) associated with key events such as major acquisitions.	• Integration of acquisitions with a focus on uniting our people through a set of common values, policies and expected behaviours. • One consistent company-wide process for performance reviews, and for reward and recognition. • Talent retention and succession planning initiatives.
Inability to Attract and Retain Talent Inability to attract and retain key people, resulting in a loss of critical skills and knowledge.	• "Inside First" recruitment strategy. • Performance review and development process. • Remuneration governance overseen by Board sub-committee. • Talent recognition process.

Financial and commercial risks	
Sources of risk	**Risk mitigation strategies**
Currency Exposures Significant exposure (long or short) to a negative commodity or currency movement, resulting in a significant loss of profit.	• Hedging program in line with the Board-approved Treasury Policy. • Board approval for milk pricing. • Pricing analysis to recover unfavourable commodity and currency movement. • Alternate or dual supplier sourcing strategy.
Capital Management Having insufficient capital available to the business.	• Control framework surrounding treasury, credit, capital management, capital expenditure and delegations of authority. • Dual bank syndicate with multiple facilities. • Bank relationships and covenant reporting. • Dual transaction banks. • Working capital optimisation - Inventory management oversight processes. - Strong debtor controls. - Comprehensive credit insurance program. - Payment protection and vendor assurance tools.
Loss of Critical Supplier A critical supplier being unable to provide services, materials, or packaging.	• Identification of alternative suppliers of items determined to be critical. • Development of flexible formulations. • Response plans within site held BCPs. • Capital purchases of plant and equipment incorporating flexible materials or inputs.
Loss of Critical Customer A critical customer is lost resulting in significant loss of revenue.	• Ongoing ranging underpinned through long-term agreements with critical customers. • Strategic review conducted to identify new markets and channels, domestically and international. • Spread exposure through acquisition. • Focus capital expenditure on innovation and new product streams.

BRAND SPOTLIGHT

Dare

Dare is the number one iced coffee brand in Australia, with a market share of 49.2%[1]. With ten different coffee flavours to choose from, it has become Australia's favourite iced coffee[2]. With broad distribution in grocery, convenience and general trade, Dare has estimated retail scanned sales of $267m[1]. See **www.dareicedcoffee.com.au**

1 IRi Total Business Scan (AU Grocery Unweighted + Structured Convenience), MAT to June 2021. Unscanned sales

2 IRi Aztec In-Home Panel database, based on the percentage of households that purchased MAT to 20 June 2021

Your Directors present the Annual Financial Report of the Bega Cheese Group for the year ended 30 June 2021

Barry Irvin – AM

Executive Chairman Bega Cheese Limited

Barry Irvin is recognised globally for his extensive experience in the dairy industry and has been Chairman of Bega Cheese Limited since 2000. Barry's leadership has seen Bega grow from a small regionally based dairy company to now the third largest dairy company in Australia, supplying a large range of dairy and grocery products in Australia and around the world.

Barry's depth of knowledge of the industry includes a significant understanding of the issues affecting Australian dairy farmers, the key investments required to meet changing consumer needs and the management of long term customer relationships.

Barry was awarded the NAB Agribusiness Leader of the Year 2009 and the Rabobank Leadership Award 2011. Barry is very aware of the importance of social responsibility, he has been Chairman of Giant Steps, an organisation providing services to children and young adults with autism since 2002. In 2008 Barry was awarded a Member of the Order of Australia for contributions to children with disability and the Australia dairy industry.

Other BGA Committees:
- Member of Dairy and Drinks Integration Committee

Other Directorships:
- Chairman of Giant Steps Australia
- Director of Vitasoy Australia Pty Ltd

Former Directorships in the last 3 years:
- Nil

Peter Margin
BSc (Hons), MBA

Independent Director since September 2020 and Deputy Chairman

Peter has many years of leadership experience in major Australian and International food companies, including Executive Chairman of Asahi Holdings (Australia) Pty Ltd, Chief Executive of Goodman Fielder Ltd and before that Chief Executive and Chief Operating Officer of National Foods Ltd.

Other BGA Committees:
- Chair of Dairy and Drinks Integration Committee

Other Directorships:
- Non-executive Director of Costa Group Holdings (ASX:CGC)
- Non-executive Director of Nufarm Ltd (ASX:NUF)

Former Directorships in the last 3 years:
- Director of Bega Cheese Limited (ASX:BGA)
- Non-executive Director of Pact Limited (ASX:PGH)

Raelene Murphy
B BUS, FCA, GAICD

Independent Director since June 2015

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 CEO of the Delta Group and senior executive roles in the Mars Group.

Raelene is a Fellow of Chartered Accountants Australia and New Zealand.

Other BGA Committees:
- Chair of Audit and Risk Committee
- Member of Nomination Remuneration & Human Resources

Other Directorships:
- Non-executive Director of Elders Limited (ASX:ELD)
- Non-executive Director of Integral Diagnostics Limited (ASX:IDX)
- Non-executive Director of Altium Limited (ASX:ALU)
- Non-executive Director of Ross House Investments Pty Limited (Stillwell Motor Group)

Former Directorships in the last 3 years:
- Non-executive Director of Clean Seas Seafood Limited (ASX:CSS)
- Non-executive Director of Service Stream Limited (ASX:SSM)

Terry O'Brien
FCPA, FAICD

Independent Director since September 2017

Terry brings to the Board a wealth of experience in the food industry, including a period of the Chairmanship of the Australian Food and Grocery Council and has been responsible for leading growth and acquisition strategies over many years in the industry.

Terry was, from 2001 until 2017, the Managing Director of Simplot Australia Pty Limited, the US owned, but Australian centric, food processor and marketer managing leading Australian brands including Birds Eye, Edgell and John West. Since announcing his retirement in early 2017, Terry has transitioned to a portfolio career and sits on a number of Australian Company Boards. An accountant by training, Terry has been active in finance and management roles in the textile industry for ten years and in the food industry for over 30 years.

Other BGA Committees:
- Chair of the Nomination Remuneration & Human Resources Committee
- Member of the Audit & Risk Committee

Other Directorships:
- Chairman of A.G Thompson Pty Ltd (t/a Kookaburra Sport)
- Chairman of Bundaberg Brewed Drinks Pty Limited

Former Directorships in the last 3 years:
- Chairman of Clean Seas Seafood Limited (ASX:CSS)

Rick Cross
B.Ag Sci (Hon), GAICD

Director since December 2011

Rick was appointed to the Board following the merger of Bega Cheese Limited and Tatura Milk Industries Pty Ltd.

Rick joined the Tatura Milk Industries' Board in 2003 and was heavily involved in negotiating the initial subscription by Bega of 70% shareholding in Tatura Milk Industries. Rick also took a lead role in negotiating the scheme of arrangement for Bega to acquire the remaining 30% of Tatura Milk Industries in December 2011.

Rick has represented dairy farmers in many various industry roles, and was formerly the Chair of Murray Dairy, Inc. He also owns and actively manages a progressive dairy farm in northern Victoria.

Other BGA Committees:
- Chair of the Milk Services Committee
- Member of the Nomination Remuneration & Human Resources Committee

Other Directorships:
- Nil

Former Directorships in the last 3 years:
- Nil

Patria Mann
B Ec, FAICD

Independent Director since September 2019

Patria is an experienced Non-executive Director with over 17 years' Board experience across various sectors. Patria qualified as a Chartered Accountant and was a former Partner at KPMG. She brings strong ASX, audit, risk management and governance experience to the Board.

She is a Fellow of the Australian Institute of Company Directors.

Other BGA Committees:
- Member of Audit & Risk Committee

Other Directorships:
- Non-executive Director of Event Hospitality Entertainment Limited (ASX:EVT)
- Non-executive Director of Ridley Corporation Limited (ASX:RIC)

Former Directorships in the last 3 years:
- Non-executive Director of Allianz Australia Limited

Harper Kilpatrick
BSc Agriculture, MBA, FCA, GAICD

Director since April 2021

Originally from Northern Ireland, Harper and his wife own and operate two dairy farms near Koroit in Western Victoria. Harper's career has centred around agriculture and agribusiness. His career in agribusiness included several senior executive roles with Glenfarm Holdings rendering business in the UK, and Deputy CFO / Head of Finance with Almarai Co., the market leading GCC food and beverage company based in Riyadh, Kingdom of Saudi Arabia.

Other BGA Committees:
- Nil

Other Directorships:
- Finance Director of the Australian Dairy Conference Pty Ltd

Former Directorships in the last 3 years:
- Nil

Principal activities

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and other food-related products. A number of key events in relation to the activities of the Group during the year ended 30 June 2021 are set out in the Chairman's report, the Chief Executive Officer's review and the Review of Financial Performance and Operations which are to be read in conjunction with this Directors' report.

Dividends

	2021 $m	2020 $m
Interim ordinary dividend for the year ended 30 June 2021 of 5.0 cents	15.1	-
Final ordinary dividend for the year ended 30 June 2020 of 5.0 cents	10.7	-
Interim ordinary dividend for the year ended 30 June 2020 of 5.0 cents	-	10.7
Final ordinary dividend for the year ended 30 June 2019 of 5.5 cents	-	11.8

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $15.1 million (5.0 cents per fully paid share) to be paid on 24 September 2021.

Review of operations

A comprehensive review of operations is set out in the Review of Financial Performance and Operations.

Significant changes in the state of affairs

Other than that disclosed in the Chairman's report, the Chief Executive Officer's review and the Review of Financial Performance and Operations 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 Secretary 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 secretary

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 36 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.

Meetings of Directors and Board Committees

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and other food-related products. A number of key events in relation to the activities of the Group during the year ended 30 June 2021 are set out in the Chairman's report, the Chief Executive Officer's review and the Review of Financial Performance and Operations which are to be read in conjunction with this Directors' report.

Meetings of the Audit & Risk Committee

	Held and Eligible	Attended
Raelene Murphy	6	6
Patria Mann	6	6
Richard Parbery[1]	1	1
Terry O'Brien	6	6

Meetings of the Nomination, Remuneration and Human Resources Committee

	Held and Eligible	Attended
Terry O'Brien	6	6
Rick Cross	6	6
Raelene Murphy	6	6

Meetings of the Milk Services Committee

	Held and Eligible	Attended
Rick Cross [4]	4	4

Meetings of the Dairy and Drinks Integration Committee

	Held and Eligible	Attended
Peter Margin[3]	8	8
Barry Irwin[6]	8	8

Meetings of the Board of Directors

	Held and Eligible	Attended
Barry Irvin	20	20
Rick Cross[5]	20	19
Patria Mann	20	20
Raelene Murphy	20	20
Terry O'Brien	20	19
Richard Parbery[1]	6	6
Peter Margin[2]	17	17
Harper Kilpatrick[4]	5	5

1. Richard Parbery resigned as Director and a member of the Audit & Risk Committee effective 27 October 2020.
2. Peter Margin commenced as Director on 8 September 2020.
3. Peter Margin was appointed as a member and of the Dairy and Drinks Integration Committee on 23 December 2020 and Chair of the Committee on 14 January 2021.
4. Harper Kilpatrick commenced as Director on 6 April 2021.
5. Rick Cross was appointed as a member and Chair of the Milk Services Committee by Special Resolution on 17 July 2020.
6. Barry Irvin was appointed as a member of the Dairy and Drinks Integration Committee on 23 December 2020.

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

Remuneration report (audited)

Letter from the Nomination, Remuneration and Human Resources Committee (NRHRC) Chair

Dear Shareholders,

On behalf of the Board of Bega Cheese Limited (**Bega Cheese or the Group**), I am pleased to present you with our FY2021 Remuneration Report. At Bega, we remain committed to ensuring that we have remuneration structures in place which support our strategy and values ("Great Food, Great People, Great Aspirations and Greater Good") and that our reward outcomes align with sustainable long term value creation in the interests of our shareholders and other stakeholders. In FY2021 there was alignment of the reward outcomes for Key Management Personnel (KMP) to the financial results of the Group with a strong EBITDA and operating cash flow outcome. The non-financial measure in the Short Term Incentive (STI) Plan for the CEO and CFO of improvement in Group safety performance was not achieved which was reflected in their variable reward outcome.

We understand that as the Group grows, there are greater expectations regarding the overall disclosure and transparency of our Remuneration Report. This year we have looked to improve readability and provide you with a streamlined Remuneration Report. We hope you will find this to be simpler, more informative and more transparent. We welcome your feedback.

FY2021 performance & strategy highlights

FY2021 has been a transformative year for Bega Cheese. In January 2021, Bega Cheese completed the Lion Dairy and Drinks acquisition which essentially doubled the size of the Group and diversified the Group's portfolio by bringing together great brands including Bega Cheese, Vegemite, Dare, Farmers Union, Dairy Farmers, Yoplait, B honey, Big M, Masters, Juice Brothers and Berri.

Linking remuneration outcomes with Group performance

Having regard to the Group performance highlights noted above:

- the FY2021 STI vested at 70%, 88% and 90% respectively for the three members of the KMP. This outcome reflects the overall growth and delivery on our EBITDA targets and robust cash flow management. However, it also acknowledges that our safety performance this year was not as expected and the part of the STI relating to safety performance has been forfeited by the CEO and his executive reports. Refer Section "FY2021 STI outcomes for further detail; and
- performance rights granted under the FY2019 Long Term Incentive (LTI) (tested at 30 June 2021) lapsed, reflecting that the performance hurdles of EPS and ROFE were not achieved. Refer section "LTI awards vesting in FY2021" for further detail.

Overall remuneration outcomes for our Executive KMP are commensurate with the performance delivery and our shareholders' experience.

Remuneration changes in FY2021

The Group has made the following changes in FY2021:

- To ensure Bega continues to provide market competitive remuneration to our executives, adjustments were made to the total fixed remuneration for the Executive KMP, reflecting the increased size and complexity of their roles following the acquisition of Lion Dairy and Drinks. In making these adjustments, the NRHRC had regard to benchmarking data sourced from external remuneration consultants for comparable organisations based on the revenue and market capitalisation for the combined Group (although Total Fixed Remuneration was positioned conservatively relative to this data between the 25th and 50th percentile of the comparator group); and
- The Board has determined that the FY2021 LTI Plan will be assessed against EPS only given that it was a transitional year for the Group (rather than ROFE and EPS as per the FY2020 LTI Plan).

Conclusion

We are excited for the year ahead, folding Dairy & Drinks into our annual cycle and continuing our journey as the Great Australian Food Company. We look forward to further feedback from our shareholders on this FY2021 Remuneration Report.

Terry O'Brien
Chair of the Nomination,
Remuneration & Human Resources Committee

Key Management Personnel (KMP)

This report sets out the remuneration of the Executive Chairman and Non-executive Directors as well as the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). These individuals represent the KMP of the Group being those accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2021.

The executive positions comprising KMP are determined by the NRHRC in consultation with the Executive Chairman and the CEO. During the year there were changes to the composition of the Board. Peter Margin was reappointed to the Board as an Independent Director on 8 September 2020. Richard Parbery retired from the Board as a Supplier Director on 27 October 2020 and Harper Kilpatrick was appointed as a Supplier Director to the Board on 6 April 2021.

Name	Position Held	Term
Executive KMP		
Barry Irvin	Executive Chairman	Full year
Paul van Heerwaarden	Chief Executive Officer Executive Director	Full year
Peter Findlay	Chief Financial Officer	Full year
Non-Executive Directors		
Peter Margin	Deputy Chairman	Appointed 8 September 2020
Raelene Murphy	Non-Executive Director	Full year
Terry O'Brien	Non-Executive Director	Full year
Rick Cross	Non-Executive Director	Full year
Patria Mann	Non-Executive Director	Full year
Harper Kilpatrick	Non-Executive Director	Appointed 6 April 2021
Richard Parbery (former)	Non-Executive Director	Until 27 October 2020

Overview of FY2021 Executive Remuneration Framework

At Bega, our executive remuneration framework is designed to attract, motivate and retain highly qualified and experienced executives, to encourage decision making in the long term interests of our shareholders and align with our values of "Great Food, Great People, Great Aspirations and Greater Good."

Our Reward structures ensure linkage between remuneration and business performance while motivating and incentivising our Executive KMP to deliver on our strategy. Our Reward structures ensure that we:

- appropriately remunerate employees for their role,
- motivate employees to perform in the best interests of the company,
- make remuneration decisions in a way that provides equity and consistency in and between roles,
- ensure remuneration outcomes are aligned with our short-term and long-term objectives,
- support effective governance, and
- attract the talent we need to underpin strategy execution.

An overview of our Executive KMP remuneration framework is set out below.

Remuneration Element	Description
Fixed Remuneration 50% of Total Maximum Opportunity	Total fixed remuneration (TFR) comprises of cash salary, superannuation contributions, and other non-monetary benefits such as additional superannuation contributions. TFR is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period. TFR is reviewed annually by the NRHRC regarding individual and Group performance, the skills and experience of the individual, the size and complexity of the individual's role and the KMP's total remuneration package. Further information can be found under FY2021 Fixed remuneration outcomes.
Short-Term Incentive 25% of Total Maximum Opportunity	The objective of the Short-Term Incentive (STI) Plan is to reward participants for achieving annual goals linked with the Group's strategy. Payments under the STI Plan are subject to agreed performance outcomes as approved by the Executive Chairman and the NRHRC for the CEO and CFO. Further information can be found under FY2021 STI outcomes.
Long-Term Incentive 25% of Total Maximum Opportunity	The objective of the Long-Term Incentive (LTI) Plan is to reward participants for long-term performance and long-term value creation for shareholders. The LTI Plan is subject to the achievement of performance hurdles as determined by the NRHRC. Further information can be found under LTI awards granted in FY2021.

Linking remuneration outcomes with Group performance

The key indicators of Group performance and shareholder wealth relevant to the remuneration of KMPs that have been extracted from the FY2021 financial statements are as follows:

Key performance indicator		FY2021 Actual	FY2021 Normalised	FY2020 Actual	FY2020 Normalised	FY2019 Actual	FY2019 Normalised	FY2018 Actual	FY2018 Normalised	FY2017 Actual	FY2017 Normalised	FY2021 vs FY2020 Normalised Amount	%
Enterprise value	$m	2,087	2,087	1,190	1,190	1,309	1,309	1,617	1,617	882	1,334	897	75
Profit before tax	$m	97.4	60.1	31.0	46.2	8.4	44.9	50.9	69.0	198.0	43.2	13.9	30
Profit after tax	$m	72.2	39.6	21.3	31.9	4.4	30.9	28.8	44.0	138.7	30.3	7.7	24
Dividends per share	Cents	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	10.00	10.00	-	-
Earnings per share	Cents	27.3	15.0	9.9	14.9	2.1	14.9	15.6	23.9	90.9	19.9	0.1	1
Share price at 30 June	$	5.89	5.89	4.38	4.38	4.70	4.70	7.29	7.29	6.40	6.40	1.51	34
Total shareholder return	%	34.61	34.61	(4.81)	(4.81)	(33.01)	(33.01)	15.51	15.51	16.70	16.70	39.42	(819)
KMP total remuneration	$'000	4,446	4,446	2,940	2,940	3,025	3,025	3,658	3,658	5,415	5,415	1,503	51

Bega Cheese Enterprise Value is calculated as at 30 June each year as market capitalisation plus debt less cash, with the FY2017 normalised amount excluding the impact of a one-off large cash balance pending the settlement of the Mondelez Grocery Business acquisition that followed on 4 July 2017.

FY2021 Fixed remuneration outcomes

(a) Overview

As noted above, TFR is reviewed annually by the NRHRC having regard to individual and Group performance, the skills and experience of the individual, the size and complexity of the individual's role and the KMP's total remuneration package. In setting TFR, to remain market competitive, the NRHRC will have regard to appropriate external market benchmarks.

(a) Review of TFR in 2021

Following the acquisition of Lion Dairy & Drinks in January 2021 (which essentially doubled the size of the Group and resulted in increased scope and complexity of Executive KMP roles), the Group sourced current remuneration market data for comparable organisations based on the revenue and market capitalisation for the combined Group to ensure Bega continues to provide market competitive remuneration to our KMP.

Having regard to this benchmarking data and the external data provided by independent remuneration advisors, the following changes were made to the TFR of Executive KMP:

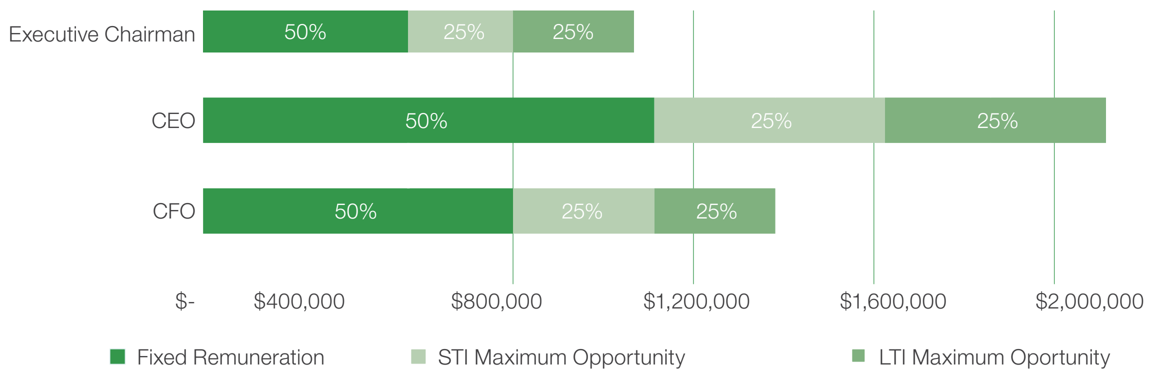
- **Executive Chairman:** consistent with previous years, the Board agreed that the TFR of the Executive Chairman be split as to his responsibilities as Chairman of the Board and as to his responsibilities as the most senior executive of the Group. Following a review of the Executive Chairman's executive and non-executive duties, the Board increased the Executive Chairman's TFR relating to his executive duties by 2% from 1 September 2020 (in line with general annual salaried employee increases).

  Following the acquisition of Lion Dairy and Drinks, the Board further increased the Chairman's remuneration to reflect the increased responsibilities as Chairman of the Group.

  The Executive Chairman's current total remuneration package is $678,200 (with a TFR of $490,000 relating to his executive duties and the Chairman's Board Fee of $188,200 relating to his Director duties).

- **CEO:** the TFR of the CEO was increased by 2% from 1 September 2020, in line with the general annual salaried employee increases in the Group. Following the acquisition of Lion Dairy and Drinks and having regard to the above market data, the CEO's remuneration was increased to $1,017,00 effective 1 February 2021. The lift to his remuneration reflects the increase in scope and complexity of managing the Group following the acquisition. Despite this increase, the CEO's remuneration is still positioned at the 25th percentile of the comparator group in the market benchmarks.
- **CFO:** similarly to the CEO, the CFO's TFR was adjusted from 1 September 2020 by 2% in line with general annual salaried employee increases in the Group. The CFO's TFR was increased to $670,000 effective from 1 February 2021 reflecting the increased scope and complexity of his role following the Lion Dairy and Drinks acquisition. However, the CFO's remuneration is still positioned conservatively between the 25th percentile and the median of the relevant comparator group.

The pay mix of our Executive Chairman, CEO and CFO are set out below (excluding Chairman Board Fees).



FY2021 STI outcomes

(a) Overview

Executive KMP have part of their total remuneration delivered under the Group's STI Plan, which is designed to reward for the achievement of performance hurdles that are linked to the annual objectives which are tied to the Group's overarching strategy.

The payment of the STI is subject to the actual performance of the individual and the Group against determined financial and non-financial criteria and is also subject to the achievement of Group and individual gateways (i.e. if these gateways are not met, there will be no payment under the STI).

The maximum STI awards that Executive KMP were eligible to receive in respect of FY2021, as well as FY2021 STI outcomes, are set out in the table below. These outcomes reflect the Group's performance against key metrics. See section (b) below for an overview of performance against the STI performance measures for each Executive KMP.

Executive KMP	Maximum STI opportunity ($)	Maximum STI (% of fixed remuneration)	% of maximum FY2021 STI awarded	% of maximum FY2021 STI forfeited
Barry Irvin	$233,065	50%	70%	30%
Paul van Heerwaarden	$435,242	50%	88%	12%
Peter Findlay	$281,868	50%	90%	10%

(b) Performance against FY2021 STI measures

The below table sets out the FY2021 STI outcomes for the Executive Chairman. These outcomes resulted in the FY2021 STI gateways opening and achievement of Group and individual STI outcomes. The NRHRC reviewed the performance of the Executive Chairman and recommended the following outcomes for Board approval. The recommend STI was approved, and payment made in cash.

STI component	%	Barry Irvin, Executive Chairman
EBITDA	20%	20%
Return on Funds Employed	20%	0%
Personal Objectives	60%	50%

The below table sets out the FY2021 STI outcomes for the CEO and CFO. The performance of the Group resulted in the FY2021 STI gateways opening and achievement of Group and individual STI outcomes. The NRHRC reviewed the performance of the CEO and CFO and recommended the following outcomes for Board approval, which were approved.

STI component	%	Paul van Heerwaarden, CEO	Peter Findlay, CFO
EBITDA	55%	57%	57%
OH&S	10%	0%	0%
Free Cash Flow	15%	15%	15%
Personal Objectives	20%	16%	18%

In accordance with the STI Plan, EBITDA stretch targets for FY2021 were partly achieved and thus reflected in the STI outcome pertaining to the EBITDA component.

The payment for the CEO and the CFO will be partly made in the form of a share issue ensuring a continued focus on cash generation. The use of shares for short term incentive delivery is designed to align employees with the goals of the organisation and to encourage the CEO and the CFO to become more significant shareholders in Bega Cheese to align their personal economic interest with shareholders. There are no restrictions on the shares issued under the STI plan. The CEO and CFO can trade the issued shares immediately subject to the organisation's security trading policies.

(c) FY2021 STI terms – further detail

The STI component for the Executive Chairman, the CEO and CFO are determined in accordance with the STI Plan as approved annually by the Board. The table below outlines the key terms and conditions applying to the STI arrangements for the Executive KMP during the FY2021.

Component	Detail
Opportunity levels	50% of fixed remuneration for Executive Chairman, CEO and CFO
Performance period	STI awards are assessed over the 12-month financial year. Any STI award payments are made after performance is tested at the end of the performance period.
Vehicle	**Executive Chairman:** STI awards are delivered in cash. **CEO and CFO:** STI awards are delivered in shares to encourage alignment between the interests of the CEO and CFO and Bega's shareholders. The amount of the STI to be delivered in shares is determined by the NRHRC annually. 50% of the FY2021 STI will be delivered in shares.
Gateway	The Executive Chairman, CEO and CFO are only entitled to a payment under the STI Plan if specific Group performance and individual gateways are achieved. These gateways ensure that STI payments are aligned to the Group's key strategic and business objectives. The Group gateways are as follows: • no STI payments are made unless the Group achieves or exceeds targeted profit (having accrued for the payout of the program in that year); and • no STI payments are made if during the year there is a major safety, quality or environmental event that was within the reasonable control of the Group. Individual gateways apply to the Chairman, CEO and CFO meaning that no STI payment is made unless the individual KMP executed their duties in a proper and effective manner, by • leading by example and being a role model for safety, quality, and the environment; • demonstrating collegiate behaviour and active participation in workgroup meetings; and • being an upholder and promoter of the Company values and behaviours. The CEO and CFO need to meet additional individual performance gateways relating to participation in safety, quality and environmental programs as well as a minimum performance rating.
Personal Objectives	Each Executive KMP are subject to financial performance measures and performance objectives. In terms of the: • financial performance objectives, refer section (b) above. • the personal objectives, they were clearly linked to the key strategic areas set for the business and aligned with the Group's values. Performance objectives include improvement in Group safety performance, cost reduction, productivity improvements, and business growth.
Process for setting performance measures	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. In FY2021 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.
Performance Assessment	Each Executive KMP's performance was assessed at the end of the financial year against their agreed objectives. 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.

Component	Detail
Governance	**Executive Chairman performance** At the end of the financial year the NRHRC reviews the performance of the Executive Chairman relating to his executive duties against determined criteria. **CEO performance** At the end of the financial year the Executive Chairman assesses the actual performance of the CEO against determined criteria. **CFO performance** At the end of the financial year, the CEO assesses the actual performance of the CFO against the determined criteria. Outcome recommendations are submitted to the NRHRC prior to being submitted to the Board for final review and approval. Board approval is required before the STI is paid.
Board Discretion	The Board has absolute discretion to amend any component of the STI for the KMP.

LTI awards granted in FY2021

(a) Overview

The group operates two LTI Plans, one for the Executive Chairman and one for the CEO and executive reports.

The purpose of the LTI is to:

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

As noted above, key changes were made to the FY2021 LTI plan. That is, the FY2021 grant will be assessed against EPS only. ROFE will be considered for inclusion in future LTI grants.

(b) FY2021 LTI awards

The table below outlines the face value of LTI awards granted to Executive KMP during FY2021.

Executive KMP	Maximum LTI opportunity ($)	Maximum LTI opportunity (% of fixed remuneration)	Number of performance rights issued
Barry Irvin	$212,698	50% of fixed remuneration	N/A (see further detail below)
Paul van Heerwaarden	$376,599	50% of fixed remuneration	90,746
Peter Findlay*	$276,667	50% of fixed remuneration	66,666

* The maximum LTI opportunity of 50% of TFR for Peter Findlay represents his annualised LTI opportunity. His LTI opportunity changed from 30% to 50% during the year and he received a weighted average LTI award of 46%.

(c) FY2021 LTI key terms – further detail

The table below sets out the key terms attached to the LTI awards granted to the Executive KMP during the year.

Component	Detail
Overview	The FY2021 LTI Plan is designed to reward the Executive Chairman, the CEO and executive reports for long-term performance and long-term value creation for shareholders.
Instrument	• **Executive Chairman (cash):** 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 is to be paid in cash if the performance hurdle is met. • **CEO and CFO (performance rights):** given that the CEO and CFO are not substantial shareholders in Bega Cheese the Board has agreed that the best way to align the performance of the CEO and CFO with the interests of shareholders is for the outcome available under their long-term incentive to be based on performance rights over ordinary shares in the Company. The number of performance rights for the LTI Performance Rights Plan is calculated using the 'face value' method (see below). Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below), each performance right issued under the plan is converted into one fully paid ordinary share in the Group.
Exercise price	Nil.
Allocation methodology	The face value of the performance rights for allocation purposes is calculated by taking the five-day volume weighted average price of Bega Cheese Limited shares at the Grant Date, and deducting the present value of expected dividends forgone over the duration of the FY2021 Plan (i.e. the dividends not received until the performance rights vest). The face value used to allocate the FY2021 LTI grant was $4.15. The fair value used for accounting purposes for the FY2021 LTI grant was $4.17.
Performance period	The FY2021 LTI grant was granted on 1 July 2020 and is subject to a performance period from 1 July 2020 to 30 June 2023.

Component	Detail
Performance measures	**Performance measure** The table below outlines performance measure and vesting schedule applying to the FY2021 LTI Plan as it applies to the Executive Chairman, CEO and executive reports to the CEO.

Vesting percentage	EPS growth targets FY2021-FY2023
Nil vesting	below 20% over the performance period
50% vesting	at 20% over the performance period
Pro-rated vesting between 50% and 100%	between 20% and 24% over the performance period
100% vesting	at 24% or above over the performance period

The Board retains the discretion to adapt the calculation of the LTI Plan measure of the Earnings Per Share performance hurdle to reflect the impact of significant events, such as capital raising or corporate activity, that may occur during the performance periods.

Service condition

There will be no vesting under the LTI unless the Executive KMP remain employed with the Group during the entire performance period of the relevant plan.

Performance rights that have not vested as a result of performance measures not being met will automatically lapse and no cash payment made to the Executive Chairman, unless otherwise determined by the Board.

Component	Detail
Dividend 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. Additional performance rights are not granted as a result of holding performance rights when dividends are declared by the Group.
Restrictions on transfer	The CEO and CFO may not transfer or encumber the performance rights with a security interest without the consent of the Board.
Malus	All performance rights will also lapse in other circumstances, including, but not limited to, where the CEO and CFO has acted fraudulently or dishonestly in the opinion of the Board.

LTI awards vesting in FY2021

(a) Overview

The FY2019 LTI award was tested in FY2021 (i.e. on 30 June 2021). 55% of this award was tested against EPS growth targets and 45% was tested against ROFE targets, with vesting subject to continued employment over the performance period.

The FY2019 LTI performance hurdles were not met and as a result no cash payment was made to the Executive Chairman and no performance rights vested into shares for the CEO; 51,343 performance rights lapsed. The CFO did not participate in the FY2019 LTI Plan.

(b) Further detail

Further detail in respect of the terms of previous LTI awards (i.e. the FY2019 LTI and FY2020 LTI) are set out below.

Component	Executive Chairman	CEO and CFO
Grant Dates	**FY2019 LTI** (FY2019-FY2021): 1 July 2018 **FY2020 LTI** (FY2020-FY2022): 1 July 2019 (CEO), 11 November 2019 (CFO - being the date of appointment)	
Vesting Dates	**(FY2019 LTI)**: 30 June 2021 **(FY2020 LTI)**: 30 June 2022	
Performance Period	**(FY2019 LTI)**: 1 July 2018 – 30 June 2021 **(FY2020 LTI)**: 1 July 2019 – 30 June 2022	
Potential Value of the Plan	**(FY2019 LTI)**: $202,437 **(FY2020 LTI)**: $207,498 Subject to the satisfaction of the performance hurdles and vesting conditions of the relevant plan	**(FY2019 LTI)**: CEO: $358,374 **(FY2020 LTI)**: CEO: $367,566, CFO: $95,453 Subject to the satisfaction of the performance hurdles and vesting conditions of the relevant plan
Face Value	Not applicable	**(FY2019 LTI)**: $6.98 **(FY2020 LTI)**: $4.45
Performance Rights issued	Not applicable	**(FY2019 LTI)**: CEO: 51,343 **(FY2020 LTI)**: CEO: 82,599, CFO: 21,450

Executive KMP remuneration statutory table

Details of each of the Executive KMP's remuneration for FY2021 (calculated in accordance with the applicable Accounting Standards) are set out below.

		Short-term benefits		Post-employment benefits	Long-term benefits		Share-based payment	Total
	Year	Cash Salary and fees	Short-term Incentive(1)	Superannuation	Leave(2)	Long-term Incentive(3)	Equity settled performance rights(4)	All amounts
		$	$	$	$	$	$	$
Executive Chairman								
Barry Irvin (5)	2021	725,332	163,146	25,000	81,321	72,234	-	1,067,033
	2020	569,565	-	25,000	49,957	(108,949)	-	535,573
Executives								
Paul van Heerwaarden	2021	844,392	408,273	25,000	191,704	-	128,462	1,597,831
	2020	725,238	225,960	25,000	78,730	-	(197,728)	857,200
Peter Findlay (6)	2021	612,588	264,409	21,694	65,464	-	112,860	1,077,015
	2020	371,152	95,953	18,258	34,983	-	21,636	541,982
Colin Griffin (7)	2021	-	-	-	-	-	-	-
	2020	155,617	-	8,910	53,254	-	(17,789)	199,992
Total Executive Remuneration	**2021**	**2,182,312**	**835,828**	**71,694**	**338,489**	**72,234**	**241,322**	**3,741,879**
	2020	1,821,572	321,913	77,168	216,924	(108,949)	(193,881)	2,134,747

(1) The STI amount for the CEO and CFO relates to the accrual for the current year outcome and the difference in last year's STI accrual and the value of shares received on the allocation date.

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

(3) Long-term incentive based on the achievement of specified milestones of the Executive Chairman's LTI Plan. The amount reflects the expense for the FY2019 to FY2021 proportion of the cash incentive due to vest in 2021. Further details of the Executive Chairman's LTI Plan are set out in the Summary of Plans above.

(4) In accordance with accounting standards, remuneration includes the amortisation of the fair value at grant date of performance rights issued under the LTI Plans that are expected to vest, less any write-back on performance rights lapsed or expected to lapse as a result of actual or expected performance against Plan hurdles. The value disclosed in the above Table represents the portion of fair value allocated to this reporting period and is not indicative of the benefit, if any, that may be received by the Executive should the performance conditions with respect to the relevant long term incentive plan be satisfied. The amount of $241,322 in FY21 reflects current year expense of $527,081 for the FY20 to FY22 plan and the FY21 to FY23 plan; less the write-back of expense incurred in prior periods relating to unvested rights that were forfeited in respect of the FY19 to FY21 plan $285,760. Further details of the CEO's and CFO's LTI Plan are set out in the Summary of Plan above.

(5) Includes remuneration for Non-executive Chairman responsibilities. Due to the Executive Chairman's leave of absence during the FY2020 year he did not participate in the FY2020 STI program. He did not receive the Chairman's allowance or accrue leave for the period of his absence in FY2020.

(6) Peter Findlay commenced as CFO on 11 November 2019.

(7) Colin Griffin ceased as CFO on 10 November 2019.

Non-Executive Directors' remuneration

Remuneration policy and arrangements

The Board sets Non-Executive Director fees in line with the key objectives of the Group's remuneration policy set out below.

- Market competitive: 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 caliber. The Board will also have regard to the size and complexity of the Company's operations, as well as the workload and time commitments and responsibilities of their roles.
- Independence and impartiality: 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 (with the exception of the Executive Chairman who participates in the STI and LTI plan based on his TFR which relates to his executive duties).

Aggregate fee pool

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool of $1,200,000 per annum approved by shareholders at the 2017 Annual General Meeting.

Fees and other benefits

Directors' fees were adjusted effective 1 November 2020 by 2% in line with the average salaried employees annual increases across the Group which were effective 1 September 2020. There were no changes to Committee fees. The Chairman's fee below represents the Board Fees relating to his role as a Non-Executive Director (he does not receive additional Committee fees).

The following table summarises the previous and current level of all Directors' fees and allowances (all allowances are paid inclusive of superannuation):

	Rate as from 1/7/2020 $	Rate as from 1/11/2020 $
Board fees		
Chairman of the Board	184,500	188,200
Deputy Chairman	-	144,100
Director fees	92,250	94,100
Committee fees		
Chair of Audit & Risk Committee	24,000	24,000
Audit & Risk Committee member allowance	10,000	10,000
Chair of NRHRC	17,500	17,500
NRHRC member allowance	8,750	8,750
Chair of Milk Services Committee	10,000	10,000
Milk Services Committee member allowance	5,000	5,000
Chair of the Dairy and Drinks Integration Committee	-	130,000

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.

Non-Executive Directors – Statutory remuneration

The fees paid or payable to the Non-Executive Directors of the Group in respect of FY2021 are set out in the table below.

	Year	Director Fees	Superannuation	Total
	$	$	$	$
Non-executive Directors				
Rick Cross	2021	102,103	9,700	111,803
	2020	93,876	8,705	102,581
Harper Kilpatrick (1)	2021	20,097	1,909	22,006
	2020	-	-	-
Peter Margin (2) (3)	2021	149,036	30,227	179,263
	2020	-	-	-
Patria Mann (4)	2021	94,505	8,978	103,483
	2020	75,951	7,215	83,166
Raelene Murphy	2021	115,282	10,952	126,234
	2020	107,656	10,227	117,883
Terry O'Brien (3)	2021	110,487	17,062	127,549
	2020	108,676	10,324	119,000
Jeff Odgers (5)	2021	-	-	-
	2020	92,694	8,806	101,500
Richard Parbery (6)	2021	31,126	2,957	34,083
	2020	92,694	8,806	101,500
Max Roberts (7)	2021	-	-	-
	2020	164,050	15,714	179,764
Total Director Remuneration	**2021**	**622,636**	**81,785**	**704,421**
	2020	735,597	69,797	805,394

(1) Harper Kilpatrick commenced with the Board on 6 April 2021.
(2) Peter Margin resigned from the Board on 31 January 2019. He was reappointed to the Board as an Independent Director on 8 September 2020.
(3) During a superannuation audit, shortfalls in superannuation payments were discovered for Peter Margin and Terry O'Brien. These shortfalls were paid to the individuals in October 2020.
(4) Patria Mann commenced with the Board on 9 September 2019.
(5) Jeff Odgers resigned from the Board on 30 June 2020.
(6) Richard Parberry resigned from the Board on 27 October 2020.
(7) Max Roberts received Board Chairman allowance from 1 July 2019 to 28 January 2020 and retired from the Board on 29 January 2020.

Remuneration governance

Overview of remuneration governance framework

The Board, supported by the NRHRC, is responsible for the remuneration strategy, principles and procedures for employees of the Group.

The NRHRC operates under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating Directors, the Executive Chairman, the CEO and the CFO. The NRHRC provides guidance to the Executive Chairman and the CEO in implementing decisions of the Board in relation to remuneration and strategic human resource planning.

An overview of the NRHRC responsibilities are set out below.

Role	Details
Recommendations to the Board	The Board takes recommendations from the NRHRC in setting the remuneration of Executive KMP. The NRHRC assesses and makes recommendations to the Board on any changes to the composition of the Board with a view to ensuring that it can operate effectively and efficiently and adequately discharge its responsibilities and duties. In formulating its recommendations, the NRHRC considers a range of factors including: • group financial performance • remuneration market data for KMP operating in similar listed organisations and industry sectors • remuneration components and weightings of fixed and variable remuneration • the performance levels and contribution of the individual KMP.
Advice and Assistance to the Board	The NRHRC advises and assists the Board to ensure that the Group: • 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 • 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 • has effective human resources 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 FY2021 Corporate Governance Statement published on the Bega Cheese Limited website **(www.begacheese.com.au/investors/corporate-governance)**.

Executive KMP service agreements

The CEO and CFO as well as the Executive Chairman in relation to the executive duties have service agreements, the key terms of which 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.

Use of remuneration consultants

In accordance with its Charter, the NRHRC can engage with remuneration consultants. During the year, Ernst and Young provided an independent review of external remuneration data relating to Executive Chairman, Board fees and Executive Remuneration. No remuneration recommendations as defined in section 9B of the Corporations Act 2001 were obtained in FY2021.

Other matters

Related party transactions

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

	Consolidated	
	2021 $	2020 $
Payments made by the Group during the year	5,610,522	8,440,785
Sales made by the Group during the year	406,131	344,374
Amounts outstanding at year end	255,894	521,141
Amounts receivable at year end	50,708	34,769

No Executive KMP or their related parties held any loans with the Group during the financial year FY2021.

Shareholdings

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

2021 – Numbers of ordinary shares	Balance at start of year	Shares purchased	STI shares awarded	Other changes	Balance at the end of the year
Executive Chairman					
Barry Irvin	2,007,841	11,000	-	-	2,018,841
Executive KMP					
Paul van Heerwaarden	47,857	26,546	47,670	-	122,073
Peter Findlay	-	-	20,243	-	20,243
Non-executive Directors					
Rick Cross	190,000	8,400	-	-	198,400
Harper Kilpatrick (1)	-	-	-	3,699	3,699
Peter Margin (2)	-	14,357	-	-	14,357
Patria Mann	20,000	4,445	-	-	24,445
Raelene Murphy	8,964	1,992	-	-	10,956
Terry O'Brien	13,323	4,449	-	-	17,772
Richard Parbery (3)	2,668,995	-	-	(2,668,995)	-

(1) Harper Kilpatrick was appointed to be a Director of Bega Cheese Ltd on 6 April 2021. He owned shares in the Company before becoming a Director.
(2) Peter Margin was appointed to be a Director of Bega Cheese Ltd on 8 September 2020.
(3) Richard Parbery ceased to be a Director of Bega Cheese Ltd on 27 October 2020, therefore his shareholdings are no longer required to be disclosed.

Likely developments and expected results of operations

Other than as disclosed in the Chairman's review, the Chief Executive Officer's review and the review of financial performance and operations 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 one hundred thousand dollars, or in certain cases, to the nearest dollar.

Matters subsequent to the end of the financial year

On 27 August 2021, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $15.1 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 34.

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 53.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

27 August 2021

BRAND SPOTLIGHT

Simply Nuts

Representing the first significant extension for the Bega brand outside of dairy, Bega has consolidated its share leadership of the peanut butter category with an estimated retail sales of $99m[1]. Launched in 2019 from peanuts sourced directly from Australian farmers, the Simply Nuts product extension has grown 72% in estimated retail sales to $11m[1]. See **www.simplynuts.com.au**

1 AC Nielsen Scan data MAT to 06 July 2021

Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2021, 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.

P.J. Carney

Paddy Carney
Partner
PricewaterhouseCoopers

Sydney
27 August 2021

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BRAND SPOTLIGHT

Vegemite

A 97 year-old Australian icon, Vegemite leads the yeast spreads category with a retail share of 91%[1]. Vegemite Squeezy is the latest addition to Vegemite, a brand that is continually innovating by sharing ways to enjoy its much loved taste in meals as well as on toast. The range has grown to 11 products domestically, with an estimated retail sales of $70m[1]. See **www.vegemite.com.au**

1 AC Nielsen Scan data MAT to 06 July 2021

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.

The Corporate Governance Statement outlines the key aspects of the Group's corporate governance framework and is available on the Group's website at www.begacheese.com.au/investors/corporate-governance/

The Board considers that the Group's corporate governance framework and practices have complied with the ASX Recommendations for the financial year, except otherwise detailed in the Corporate Governance Statement.

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Consolidated Statement of Comprehensive Income

	Notes	CONSOLIDATED 2021 $m	2020 $m
Revenue	5	2,073.4	1,493.2
Cost of sales		(1,608.2)	(1,204.2)
Gross profit		**465.2**	**289.0**
Other revenue	5	25.3	9.0
Other income	5	13.5	4.9
Distribution expense		(156.5)	(86.6)
Marketing expense		(52.3)	(35.7)
Occupancy expense		(26.6)	(14.0)
Administration expense		(165.3)	(123.3)
Acquisition related expenses		(62.2)	-
Impairment of assets	6	(2.2)	(1.1)
Finance costs	6	(10.4)	(11.3)
Share of profit of equity accounted investments	27	1.2	0.1
Provisional gain on bargain purchase	28	67.7	-
Profit before income tax		**97.4**	**31.0**
Income tax expense	7a	(25.2)	(9.7)
Profit for the year attributable to owners of Bega Cheese Limited		**72.2**	**21.3**
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss			
Cash flow hedges, net of tax		(1.3)	(1.3)
Total other comprehensive (expense)		**(1.3)**	**(1.3)**
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		**70.9**	**20.0**

		2021 Cents	2020 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share	3	27.3	9.9
Diluted earnings per share	3	27.2	9.9

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

Consolidated Balance Sheet

	Notes	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
ASSETS			
Current assets			
Cash and cash equivalents	22	87.2	22.9
Trade and other receivables	8	348.9	69.5
Derivative financial instruments	10	1.1	1.3
Inventories	11	345.0	257.4
Current tax assets		13.3	10.7
Other assets	9	37.9	47.9
Total current assets		**833.4**	**409.7**
Non-current assets			
Financial assets at fair value through other comprehensive income	10	-	0.7
Property, plant and equipment	12	908.5	446.0
Right-of-use assets	13	103.4	8.8
Deferred tax assets	7e	4.6	6.7
Other assets	9	0.1	2.0
Intangible assets	14	589.5	548.1
Investments accounted for using the equity method	27	46.6	1.4
Total non-current assets		**1,652.7**	**1,013.7**
Total assets		**2,486.1**	**1,423.4**
LIABILITIES			
Current liabilities			
Trade and other payables	15	477.4	233.3
Other liabilities	16	42.8	20.1
Derivative financial instruments	18	2.1	0.1
Lease liabilities	13	25.5	3.0
Current tax liabilities		18.4	-
Provisions	19	118.7	49.5
Total current liabilities		**684.9**	**306.0**
Non-current liabilities			
Borrowings	17	391.9	247.2
Lease liabilities	13	79.1	8.3
Other liabilities	16	0.5	-
Provisions	19	24.6	2.9
Deferred tax liabilities	7e	44.4	45.0
Total non-current liabilities		**540.5**	**303.4**
Total liabilities		**1,225.4**	**609.4**
Net assets		**1,260.7**	**814.0**
EQUITY			
Share capital	20a	875.7	480.5
Reserves	21	25.9	20.8
Retained earnings		359.1	312.7
Capital and reserves attributable to owners of Bega Cheese Limited		**1,260.7**	**814.0**
Total equity		**1,260.7**	**814.0**

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

Consolidated Statement of Changes in Equity

Consolidated	Share capital $m	Share-based payment reserve $m	Capital profits reserve $m	Hedging reserve $m	Transactions with non-controlling interests $m	Retained earnings $m	Total $m
Balance as at 1 July 2019	477.5	1.2	34.0	0.3	(12.6)	313.9	814.3
Profit for the year	-	-	-	-	-	21.3	21.3
Other comprehensive income for the year	-	-	-	(1.3)	-	-	(1.3)
Transactions with owners in their capacity as owners:							
- Issue of shares, net of transaction costs and tax (note 20)	3.0	-	-	-	-	-	3.0
- Share-based payments relating to incentives (note 35)	-	(0.8)	-	-	-	-	(0.8)
- Dividends provided for or paid (note 4)	-	-	-	-	-	(22.5)	(22.5)
Balance as at 30 June 2020	**480.5**	**0.4**	**34.0**	**(1.0)**	**(12.6)**	**312.7**	**814.0**
Balance as at 1 July 2020	480.5	0.4	34.0	(1.0)	(12.6)	312.7	814.0
Profit for the year	-	-	-	-	-	72.2	72.2
Other comprehensive income for the year	-	-	-	(1.3)	-	-	(1.3)
Transactions with owners in their capacity as owners:							
- Issue of shares, net of transaction costs and tax (note 20)	395.2	-	-	-	-	-	395.2
- Share-based payments relating to incentives (note 35)	-	6.4	-	-	-	-	6.4
- Dividends provided for or paid (note 4)	-	-	-	-	-	(25.8)	(25.8)
Balance as at 30 June 2021	**875.7**	**6.8**	**34.0**	**(2.3)**	**(12.6)**	**359.1**	**1,260.7**

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

Consolidated Statement of Cash Flows

	Notes	CONSOLIDATED 2021 $m	2020 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		2,221.7	1,691.6
Payments to suppliers and employees inclusive of goods and services tax		(2,086.5)	(1,494.9)
Net payments to Trade Receivables Facility		(12.7)	(35.4)
Interest and other costs of financing paid		(10.5)	(11.3)
Interest received		0.1	0.3
Income taxes paid	7f	(0.7)	(12.3)
Net cash inflow from operating activities	22	**111.4**	**138.0**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for shares in unlisted companies		-	(1.0)
Payments for property, plant and equipment		(22.2)	(42.8)
Net proceeds from sale of property, plant and equipment		-	5.0
Payments for intangible assets		(10.0)	(14.1)
Payment for acquisition of subsidiaries, net of cash acquired	28	(514.5)	-
Net cash (outflow) from investing activities		**(546.7)**	**(52.9)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		205.0	18.2
Repayment of borrowings		(60.0)	(87.0)
Principal elements of lease payments		(12.3)	(2.7)
Net proceeds from issue of shares		390.2	-
Dividends paid to Bega Cheese Limited's shareholders	4	(23.3)	(19.5)
Net cash inflow/(outflow) from financing activities		**499.6**	**(91.0)**
Net increase /(decrease) in cash and cash equivalents		**64.3**	**(5.9)**
Cash and cash equivalents at the beginning of the year		22.9	28.8
Cash and cash equivalents at the end of the year	22	**87.2**	**22.9**

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

Notes to the Financial Statements

How numbers are calculated

1. Significant events in the accounting period

A. Acquisition of Lion Dairy and Drinks

On 26 November 2020, the Group announced that it had entered into a binding agreement to acquire all of the shares in Lion Dairy and Drinks ("LDD") for a net purchase price of $528.2 million with the final acquisition price net of cash acquired being $514.5 million. The acquisition successfully completed on 25 January 2021. The acquisition of LDD shares was funded by a combination of capital raising proceeds and refinanced syndicated debt facilities. A provisional bargain purchase gain of $67.7 million and acquisition related costs of $63.8 million have been recognised in the Group's consolidated statement of comprehensive income for the year ended 30 June 2021 (Refer to note 28 for further details).

Following the acquisition, the entities of the Lion Dairy and Drinks were consolidated within the Branded Segment as Bega Dairy and Drinks ("BDD").

B. Capital raising

On 26 November 2020, the Group announced an underwritten entitlement offer and placement to raise $401 million at an offer price of $4.60 per share. The capital raising comprised:

- a 1 for 4.5 pro-rata accelerated non-renounceable entitlement offer, comprising an Institutional Entitlement Offer, and a Retail Entitlement Offer, raising approximately $220 million; and
- an Institutional Placement, raising approximately $181 million.

The offer price of $4.60 represented a 9.1% discount to the last traded price of $5.06 on 20 November 2020. The successful capital raising resulted in net proceeds of $392.7 million (net of costs and tax) in undertaking the capital raise and an additional 87,179,032 ordinary fully paid shares being issued.

C. Dividend reinvestment plan

The Group's Dividend Reinvestment Plan (DRP) will be activated for the FY2021 final fully franked dividend. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares allocated under the DRP will be derived from new issued ordinary shares. The shares issued rank pari passu with other ordinary shares already on issue. The allocation price will be determined in accordance with the DRP rules as the arithmetic average of the daily volume weighted average market price of all Bega Cheese Limited shares sold through a normal trade on the ASX trading system over the five business days commencing on the day of the record date.

A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the FY2021 final fully franked dividend to be paid on 24 September 2021 must be recorded by the registry by 5:00 pm on 3 September 2021 to be effective for that dividend.

D. Kraft Legal action

In November 2017, Kraft Foods Group Brands LLC and H.J. Heinz Company Australia Limited (collectively referred to as Kraft Heinz) commenced proceedings against Bega Cheese claiming that they were the rightful owner of the trade dress (yellow lid, clear jar, yellow label with red or blue peanut device) of the Bega Cheese peanut butter products. In 2019, the Federal Court determined that Bega Cheese was the rightful owner of the relevant rights in the peanut butter trade dress and the Court ordered that Kraft Heinz may not use, sell or advertise and promote its own peanut butter products using the trade dress. This decision was upheld by the Full Court of the Federal Court of Australia in 2020.

Kraft Heinz then filed an application in the High Court of Australia seeking special leave to appeal from the judgment of the Full Court of the Federal Court, however on 13 November 2020, the High Court of Australia dismissed Kraft Heinz's application for special leave to appeal. The dismissal of the special leave application means that the decision of the Full Court of the Federal Court of Australia stands and confirms Bega Cheese's ownership of the trade dress rights.

In June 2021, Bega Cheese entered into a confidential settlement with Kraft Heinz regarding the issues of monetary relief and legal costs payable in respect of the legal proceedings. Under the terms of settlement, Kraft Heinz paid $9.25 million to Bega Cheese, which was received by Bega Cheese in June 2021. In addition, the New York court proceedings relating to this matter have been dismissed, the New York arbitration file relating to this matter has been closed and the Federal Court proceedings to determine costs and damages relating to this matter have been dismissed. This resolves all outstanding issues relating to this matter.

1. Significant events in the accounting period (cont.)

E. Fonterra Legal action

In 2017, Fonterra Brands Australia commenced legal proceedings in the Supreme Court of Victoria in relation to the scope of the 2001 trade mark licence between Bega Cheese and Fonterra. On 25 February 2021, the Supreme Court of Victoria held that Bega Cheese is entitled to use the Bega trade mark, as owner of the trade marks, on its products, outside of the scope of the Fonterra licence, without Fonterra's Consent. Fonterra has an ongoing exclusive licence to use the Bega trade mark on natural cheddar cheese, processed cheddar cheese, string cheese and butter. Bega Cheese's counter claims in respect of alleged breaches of the trade mark licence by Fonterra were dismissed. Neither party appealed the decision. Fonterra was ordered to pay Bega Cheese's costs in relation to the claim. Bega Cheese was ordered to pay Fonterra's costs in relation to the counterclaim. The amounts payable by the parties have not yet been determined.

F. Termination of customer contract

In April 2017, the Group sold the MSD2 dryer at Tatura, Victoria ("MSD2") and its infant formula finishing plant at Derrimut, Victoria ("Derrimut") to Reckitt's subsidiary Mead Johnson Nutrition (Australia) Pty Ltd for $200 million. The transaction included services and access agreements with Reckitt for MSD2 and finishing plant expiring on 31 December 2026.

During the year, Reckitt has notified the Group that the contractual arrangements for the Derrimut will cease in October 2021 and January 2022 for MSD2. To compensate for the loss of future earnings, Reckitt has agreed to pay contractual termination fees of $34.4 million for the MSD2 and $21.1 million for the Derrimut. In FY2021 Bega received $8.6 million of cash and recognised $14.3 million of income in respect to MSD2 and received $5.3 million of cash and recognised $15.5 million of income for Derrimut. The remaining $41.6 million of cash will be received in FY2022 and $25.7 million of income recognised in FY2022.

The Derrimut and MSD2 arrangements both include a service and facility component, and of the total FY2021 income of $29.8 million, $15.9 million is recognised in Other revenue for the terminated facility access fees (See note 5) and the remaining $13.9 million is recognised in Services revenue.

G. Director appointments

On 8 September 2020, Bega Cheese announced the appointment of Peter Margin as an Independent Director and Deputy Chairman of the Company.

On 6 April 2021, Bega Cheese announced the appointment of Harper Kilpatrick as a Supplier Director of the Company.

H. Revised syndicate facility

On 23 December 2020, Bega Cheese Group entered into a revised syndicated debt facility structure with its financiers (Refer to "note 24d" for further details).

I. Effective tax rate

The Group's effective company tax rate is calculated as income tax expense divided by profit before tax. Income tax expense captures taxes on profits and excludes other types of taxes for example GST, FBT, payroll tax and PAYG tax paid on behalf of employees. The effective company tax rate will differ from the statutory company tax rate of 30 per cent due to non-temporary differences. The prima facie effective tax rate of the Group is 25.9% which is lower than the statutory corporate tax rate given the large accounting gain included in profit before tax that is not assessable. Given the significant acquisition of the BDD Group this period there have also been a number of one off acquisition related transaction costs including stamp duty.

2. Segment information

A. Description of segments

The Group determines the reporting segments based on financial and other management reports reviewed by the Executive Chairman, Chief Executive Officer and Chief Financial Officer, in their capacity as the Chief Operating Decision Makers (CODM).

The Group has two reporting segments:

i. Branded – the manufacture of value added consumer products for owned and externally owned brands.

ii. Bulk – the manufacture of bulk dairy ingredients, nutritional and bio nutrient products.

On 25 January 2021, Bega Cheese acquired Lion Dairy and Drinks and has been included in the Branded reporting segment to reflect the consumer products that the business manufactures and how information is provided to the CODM to make business decisions regarding resource allocation.

The CODM assesses the performance of the reporting segments based on a measure of EBITDA. In addition, the CODM take into account current year events by segment so that normalised business performance is assessed.

Unallocated overheads relate to corporate and legal costs that cannot be reasonably classified into a segment.

Inter-segment eliminations represent elimination of sales and profit in stock arising from inter-segment sales at an arm's length transfer price. In the year ended 30 June 2021, included in the amount is $70.0 million of provisional gains relating to the acquisition of Lion Dairy and Drinks.

B. Segment information provided to the CODM

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2021 is as follows:

	Branded $m	Bulk $m	Unallocated overheads $m	Inter-segment eliminations $m	Group total $m
Year ending 30 June 2021					
Revenue	1,519.9	897.5	-	(344.0)	2,073.4
EBITDA	94.5	98.9	(79.7)	69.0	182.7
Depreciation, amortisation and impairment					(75.0)
EBIT					107.7
Interest revenue					0.1
Interest expense					(10.4)
Profit before income tax					**97.4**
Income tax expense					(25.2)
Profit for the year					**72.2**
Impact of current year events on profit before tax					
Acquisition related expenses	(3.9)	-	(59.9)	-	(63.8)
Provisional gain on bargain purchase	-	-	-	70.0	70.0
Reckitt termination fees	-	29.8	-	-	29.8
Kraft Legal Settlement	-	-	9.3	-	9.3
Other costs	-	(2.1)	(5.9)	-	8.0

2. Segment information (cont.)

Prior period comparative segment information as follows:

	Branded $m	Bulk $m	Unallocated overheads $m	Inter-segment eliminations $m	Group total $m
Year ending 30 June 2020					
Revenue	878.6	977.4	-	(362.8)	1,493.2
EBITDA	76.0	42.3	(30.1)	(0.4)	87.8
Depreciation, amortisation and impairment					(45.8)
EBIT					42.0
Interest revenue					0.3
Interest expense					(11.3)
Profit before income tax					**31.0**
Income tax expense					(9.7)
Profit for the year					**21.3**
Impact of current year events on profit before tax					
Legal costs	-	-	(9.6)	-	(9.6)
Acquisition related expenses	-	-	(0.3)	-	(0.3)
Other costs	-	-	(5.3)	-	(5.3)

C. Other segment information

Segment revenue

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

	CONSOLIDATED 2021 $m	2020 $m
Sales to external customers in Australia		
Branded	1,269.6	649.8
Bulk	252.6	319.9
Total sales to external customers in Australia	1,522.2	969.7
Sales to external customers in other countries		
Branded	250.3	228.8
Bulk	300.9	294.7
Total sales to external customers in other countries	551.2	523.5
Total sales to external customers	**2,073.4**	**1,493.2**

3. Earnings per share

	CONSOLIDATED	
	2021	**2020**
	Cents	Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	27.3	9.9
Diluted earnings per share	27.2	9.9
	2021	**2020**
	Number	Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	264,273,802	214,163,264
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	646,341	349,081
Shares used as the denominator in calculating diluted earnings per share	264,920,143	214,512,345
	2021	**2020**
	$m	$m
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	72.2	21.3

4. Dividends to shareholders

	COMPANY	
	Full year 2021	**Full year 2020**
	$m	$m
Recognised amounts:		
2021 Interim dividend of 5.00 cents	15.1	-
2020 Final dividend of 5.00 cents	10.7	-
2020 Interim dividend of 5.00 cents	-	10.7
2019 Final dividend of 5.50 cents	-	11.8
Total dividend	**25.8**	**22.5**
Issue of shares under the DRP	(2.5)	(3.0)
Net cash outflow	**23.3**	**19.5**
Unrecognised amounts:		
2021 Final dividend of 5.00 cents	15.1	-
2020 Final dividend of 5.00 cents	-	10.7

The dividends paid in 2021 and 2020 were fully franked. The 2021 final dividend will be fully franked.

4. Dividends to shareholders (cont.)

	CONSOLIDATED		COMPANY	
	2021	2020	2021	2020
	$m	$m	$m	$m
Value of the dividend franking account	102.2	101.9	15.8	26.6

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 subsidiaries were paid as dividends.

5. Revenue and other income

	CONSOLIDATED	
	2021	2020
	$m	$m
Sales of goods	1,990.4	1,450.8
Services	83.0	42.4
Total revenue	**2,073.4**	**1,493.2**
Other revenue		
Royalties	8.2	7.9
Contract termination fees	15.9	-
Other	1.2	1.1
Total other revenue	**25.3**	**9.0**
Other income		
Rental income	1.0	1.6
Interest income	0.1	0.3
Legal settlement proceeds	9.3	-
Gain on equity interest	2.3	-
Other	0.8	3.0
Total other income	**13.5**	**4.9**

The Group recognises the majority of its revenue from contracts with customers for the transfer of goods at a point in time. Refer to note 36e for further explanation of the Group's revenue recognition policy.

The gain on equity interest during the year relates to the Group's fair value adjustment for the 25% pre-acquisition ownership in CCFA arising from the Lion Dairy and Drinks acquisition.

Revenues of approximately $623.8 million (2020: $223.6 million) are concentrated in a small number of external customers.

6. Expenses

Profit before income tax includes the following specific expenses.

	CONSOLIDATED	
	2021	2020
	$m	$m
Loss/(profit) on disposal of property, plant and equipment	0.1	(0.3)
Write-off of intangible assets	(0.4)	-
(Decrease)/increase in inventory provisions	(0.8)	1.7
(Decrease)/increase of bad and doubtful debts	(0.1)	0.5
Depreciation of property, plant and equipment	49.0	35.0
Depreciation of right-of-use assets	12.8	2.6
Impairment of property, plant and equipment	2.2	-
Impairment of intangible assets	-	0.1
Impairment of investments	-	1.0
Amortisation of intangible assets	11.0	7.1
Trade Receivables Facility costs	2.5	3.8
Employee benefit expense:		
- Defined contribution superannuation expense	23.7	16.6
- Other employee benefits expense	324.9	211.0
Total employee benefit expense	**348.6**	**227.6**
Finance costs:		
- Interest on bank loans	4.7	8.2
- Lease liability interest	2.1	0.7
- Other finance costs	3.6	2.4
Total finance costs	**10.4**	**11.3**

7. Income tax

	CONSOLIDATED	
	2021 $m	2020 $m
A. INCOME TAX EXPENSE		
Current tax (expense)	(14.7)	(6.4)
Deferred tax (expense) from the origination and reversal of temporary differences	(8.6)	(3.6)
Adjustments recognised in the current year in relation to tax of prior years	(1.9)	0.3
Total income tax expense	**(25.2)**	**(9.7)**

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 as at the end of the financial year. 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.

7. Income tax (cont.)

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	97.4	31.0
Tax (expense) at the Australian tax rate of 30% (2020 - 30%)	(29.2)	(9.3)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	21.3	0.7
Non-deductible expenses	(10.9)	(1.0)
Other assessable income	(0.3)	-
Other deductible expenses	-	0.2
	10.1	(0.1)
Tax incentives	0.2	0.4
Adjustments in respect of prior year	(1.9)	0.3
De-recognition of previously recognised tax losses	(4.2)	(0.4)
Previously unrecognised capital losses used	-	0.2
Previously unrecognised tax losses used to reduce deferred tax expense	11.6	-
Current year tax losses not recognised	(11.8)	(0.8)
Total income tax expense	**(25.2)**	**(9.7)**

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
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:		
Movement in hedging reserve	0.6	-
Total amount recognised through other comprehensive income	**0.6**	**-**

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
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:		
Lease transition adjustment	-	0.5
Share issue costs	2.5	-
Total amount recognised through equity	**2.5**	**0.5**

E. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $m	Reclassification $m	Provisional acquisition $m	Charged to income $m	Charged to equity $m	Closing balance $m
Year ending 30 June 2021						
Deferred tax assets						
Doubtful debts	0.2	-	1.7	(1.7)	-	0.2
Inventories	2.9	-	4.6	(6.0)	-	1.5
Sundry accrued expenses	4.4	-	2.1	(1.0)	-	5.5
Black hole expenditure	2.8	-	-	(2.8)	-	-
Employee provisions	16.0	-	2.6	(1.2)	-	17.4
Other provisions	-	-	8.8	(8.8)	-	-
Leased assets	0.4	-	(0.6)	-	-	(0.2)
Share issue costs	0.8	-	-	-	2.5	3.3
Fair value of derivatives	-	-	-	0.2	0.6	0.8
Tax losses	5.8	-	-	(5.8)	-	-
Other	-	-	0.3	-	-	0.3
Total deferred tax assets	33.3	-	19.5	(27.1)	3.1	28.8
Deferred tax (liabilities)						
Property, plant and equipment	(16.4)	-	-	0.7	-	(15.7)
Investments	-	-	(4.3)	4.3	-	-
Brand names	(42.5)	-	(11.2)	11.4	-	(42.3)
Software	(11.3)	-	-	2.2	-	(9.1)
Other	(1.4)	-	-	(0.1)	-	(1.5)
Total deferred tax (liabilities)	(71.6)	-	(15.5)	18.5	-	(68.6)
Total deferred tax	**(38.3)**	**-**	**4.0**	**(8.6)**	**3.1**	**(39.8)**

Consolidated	Opening balance $m	Reclassification $m	Provisional acquisition $m	Charged to income $m	Charged to equity $m	Closing balance $m
Year ending 30 June 2020						
Deferred tax assets						
Doubtful debts	-	-	-	0.2	-	0.2
Inventories	2.0	-	-	0.9	-	2.9
Sundry accrued expenses	5.6	-	-	(1.2)	-	4.4
Black hole expenditure	2.4	-	-	0.4	-	2.8
Employee provisions	14.5	-	-	1.5	-	16.0
Leased assets	-	-	-	(0.1)	0.5	0.4
Share issue costs	1.1	-	-	(0.3)	-	0.8
Tax losses	1.3	4.5	-	-	-	5.8
Total deferred tax assets	**26.9**	**4.5**	**-**	**1.4**	**0.5**	**33.3**
Deferred tax (liabilities)						
Property, plant and equipment	(16.3)	-	-	(0.1)	-	(16.4)
Brand names	(42.5)	-	-	-	-	(42.5)
Software	(6.4)	-	-	(4.9)	-	(11.3)
Fair value of derivatives	(0.1)	-	-	0.1	-	-
Other	(1.4)	-	-	-	-	(1.4)
Total deferred tax (liabilities)	(66.7)	-	-	(4.9)	-	(71.6)
Total deferred tax	**(39.8)**	**4.5**	**-**	**(3.5)**	**0.5**	**(38.3)**

7. Income tax (cont.)

Deferred tax assets and liabilities in the Consolidated Balance Sheet have been disclosed based on whether the taxable entity they relate to has a legally enforceable right to set off the recognised amounts. These are presented as follows:

	CONSOLIDATED	
	2021 $m	2020 $m
Deferred tax assets	4.6	6.7
Deferred tax liabilities	(44.4)	(45.0)
Net deferred tax liabilities	**(39.8)**	**(38.3)**

Unused tax losses for which no deferred tax asset has been recognised as at 30 June 2021 are $55.1 million (2020: $17.7 million), the potential tax benefit of this at 30% is $16.5 million (2020: $5.3 million). Unused capital losses for which no deferred tax asset has been recognised as at 30 June 2021 are $13.7 million (2020: $13.7 million), the potential tax benefit of this at 30% is $4.1 million (2020: $4.1million).

	CONSOLIDATED	
	2021 $m	2020 $m
F. INCOME TAXES PAID		
Income taxes paid is included in the Consolidated Statement of Cash Flows as follows:		
Income taxes (paid) included in operating activities	(0.7)	(12.3)
Total income taxes (paid)	**(0.7)**	**(12.3)**

8. Trade and other receivables

	CONSOLIDATED	
	2021 $m	2020 $m
Current assets		
Trade receivables	303.8	31.5
Allowance for impairment of receivables	(9.4)	(0.6)
Net trade receivables	294.4	30.9
Goods and services tax (GST) receivable	23.3	7.7
Accrued revenue	5.8	12.0
Amounts receivable under Trade Receivables Facility	6.8	14.7
Other debtors	18.6	4.2
Total trade and other receivables	**348.9**	**69.5**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 to 60 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 36.

Accrued revenue primarily relates to receivables from customers under product supply contracts whereby the revenue has yet to be invoiced.

The Group utilises a Trade Finance Facility ('Trade Receivables Facility') with the Coöperatieve Rabobank U.A. (Australia Branch) (Rabobank) whereby it may purchase receivables from the Group at a discount. This facility is utilised by the Group as a primary source of working capital. The maximum available at any time under the facility was $200.0 million during the financial year. Most eligible receivables sold to Rabobank are insured by the Group with the Group retaining a continuing involvement asset of 10%, representing its maximum exposure under the facility. 90% of the value of receivables sold by the Group into this facility are de-recognised as an asset as the contractual rights to cashflows from these receivables have expired on acceptance of the sale to Rabobank. The Trade Receivables Facility is a fully committed facility and was extended to 31 January 2023 in August 2021. The funded value of the Group's Trade Receivables Facility was $136.9 million as at 30 June 2021 (2020: $153.3 million).

9. Other assets

	CONSOLIDATED	
	2021 $m	2020 $m
Current assets		
Prepayments	12.8	17.3
Trade Receivables Facility continuing involvement asset	16.1	18.7
Other assets	9.0	11.9
Total current other assets	37.9	47.9
Non-current assets		
Prepayments and other	0.1	2.0
Total non-current other assets	0.1	2.0
Total other assets	**38.0**	**49.9**

10. Derivative financial instruments and other financial assets

	CONSOLIDATED	
	2021 $m	2020 $m
Current assets		
Foreign currency options	1.1	-
Foreign currency forwards – cash flow hedges	-	0.8
Foreign currency forwards – fair value hedges	-	0.5
Total current derivative financial instruments	1.1	1.3
Non-current assets		
Financial assets at fair value through other comprehensive income (FVOCI) - unlisted equity securities	-	0.7
Total non-current financial assets	-	0.7
Total financial assets	**1.1**	**2.0**

Derivative financial instruments relate to foreign currency contracts used for hedging. Further information on these contracts is given in note 24a. 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.

11. Inventories

The write-down of inventories to net realisable value requires judgement in assessing future commodity prices, other market conditions, product shelf life and provisions for quality.

	CONSOLIDATED	
	2021 $m	2020 $m
Raw materials and work in progress	139.6	125.0
Finished goods	195.6	137.0
Maintenance spares	22.7	9.1
Provisions	(12.9)	(13.7)
Carrying amount of inventories at lower of cost or net realisable value	**345.0**	**257.4**

12. Property, plant and equipment

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Land and buildings		
At cost	467.5	207.9
Accumulated depreciation	(50.2)	(44.0)
Total land and buildings	417.3	163.9
Plant and equipment		
At cost	834.0	619.7
Accumulated depreciation	(378.6)	(347.3)
Total plant and equipment	455.4	272.4
Construction in progress	35.8	9.7
Total property, plant and equipment	**908.5**	**446.0**

The movements in property, plant and equipment are:

Consolidated	Construction in progress $m	Land and buildings $m	Plant and equipment $m	Total $m
Year ending 30 June 2021				
Balance at the beginning of the financial year	9.6	164.0	272.4	446.0
Provisional acquisitions through business combinations	17.9	260.1	209.0	487.0
Capital expenditure	26.8	-	-	26.8
Disposals	-	-	(0.1)	(0.1)
Depreciation	-	(8.3)	(40.7)	(49.0)
Impairment	-	-	(2.2)	(2.2)
Transfers	(18.5)	1.5	17.0	-
Balance at the end of the financial year	**35.8**	**417.3**	**455.4**	**908.5**
Year ending 30 June 2020				
Balance at the beginning of the financial year	35.7	161.7	245.9	443.3
Capital expenditure	42.2	-	-	42.2
Disposals	-	(3.3)	(1.2)	(4.5)
Depreciation	-	(5.3)	(29.7)	(35.0)
Transfers	(68.3)	10.9	57.4	-
Balance at the end of the financial year	**9.6**	**164.0**	**272.4**	**446.0**

13. Leases

The balance sheet shows the following amounts relating to leases:

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Right-of-use assets		
At cost	121.7	15.6
Accumulated depreciation	(18.3)	(6.8)
Total right-of-use assets	**103.4**	**8.8**

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Right-of-use assets		
Properties	82.5	6.6
Equipment	17.0	1.2
Motor vehicles	3.9	1.0
Total right-of-use assets	**103.4**	**8.8**

Additions to the right-of-use assets during the 2021 financial year were $14.0 million (2020: $4.6 million) and $101.3 million were acquired through business combinations.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Lease liabilities		
Current	25.5	3.0
Non-current	79.1	8.3
Total lease liabilities	**104.6**	**11.3**

The statement of comprehensive income shows the following accounts relating to leases:

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Depreciation charge of right-of-use assets	12.8	2.6
Interest expense (included in finance cost)	2.1	0.7

The total cash outflow for leases in 2021 was $14.4 million (2020: $3.4 million).

14. Intangible assets

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Brands	177.6	140.4
Water rights	5.6	5.6
Software	57.0	53.5
Goodwill	347.4	346.5
Other	1.9	2.1
Total intangible assets	**589.5**	**548.1**

14. Intangible assets (cont.)

Consolidated	Brands $m	Software $m	Water Rights $m	Goodwill $m	Other $m	Total $m
Year ending 30 June 2021						
Balance at the beginning of the financial year	140.4	53.5	5.6	346.5	2.1	548.1
Provisional acquisitions through business combinations	37.2	4.4	-	0.9	0.2	42.7
Additions	-	10.1		-	-	10.1
Disposals	-	(0.4)	-	-	-	(0.4)
Amortisation	-	(10.6)	-	-	(0.4)	(11.0)
Balance at the end of the financial year	**177.6**	**57.0**	**5.6**	**347.4**	**1.9**	**589.5**
Year ending 30 June 2020						
Balance at the beginning of the financial year	140.4	51.2	5.6	346.5	2.4	546.1
Additions	-	9.1	-	-	0.1	9.2
Amortisation	-	(6.7)	-	-	(0.4)	(7.1)
Impairment	-	(0.1)	-	-	-	(0.1)
Balance at the end of the financial year	**140.4**	**53.5**	**5.6**	**346.5**	**2.1**	**548.1**

Brands and other identifiable intangible assets
Brands and other identifiable intangible assets purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination.

These identifiable intangible assets are subsequently measured:

- if they have a finite life, at cost less amortisation, and
- if they have an indefinite life, at cost less accumulated impairment losses.

Finite life brands or other identifiable intangible assets are amortised on a straight-line basis over the shorter of their contractual or useful economic life, being three to 25 years. They are also tested for impairment when an indicator of impairment may exist.

Indefinite life identifiable intangible assets are not amortised but are instead tested for impairment annually, or more frequently if there is an indicator of impairment. Brands or other identifiable intangible assets are determined to have an indefinite life where there is an intention to maintain and support the brand or other intangible asset for an indefinite period.

Water rights
Water rights are indefinite life identifiable intangible assets and were acquired as part of the acquisition of the Strathmerton and Peanut Company of Australia (PCA) facilities. Water rights are attributable to the Branded segment. Impairment was tested by reference to third party market valuation based on recent transactions and related data.

Software
SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. For SaaS arrangements, the Group assesses if the contract will provide a resource that it can control to determine whether an intangible asset is present. If the Group cannot determine control of the software, the arrangement is deemed a service contract and any implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when incurred.

Costs incurred to obtain access to the cloud provider's application software are generally recognised as operating expenses when the services are received.

Costs incurred for the development of software code that enhances, modifies or creates additional capability to existing for on-premise are capitalised if it meets the recognition criteria for an intangible asset.

Certain internal and external costs directly incurred in acquiring and developing software are capitalised if it they meet the recognition criteria of an Intangible asset and are amortised on a straight-line basis over their estimated useful lives, being 3 to 10 years. Capitalised costs are tested for impairment when an indicator of impairment exists.

14. Intangible assets (cont.)

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets of the acquired business 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 (CGU) that are expected to benefit from the business combination in which the goodwill arose.

Bega Foods impairment assessment

The Group has identified the Mondelēz Grocery Business, acquired in July 2017 and renamed Bega Foods, to be a CGU. This CGU includes goodwill of $230.3 million and capitalised brands of $140.0 million. The Bega Foods CGU produces branded grocery products including Vegemite, peanut butter and honey for sale to domestic customers.

This CGU is subject to annual impairment testing as it holds indefinite life intangible assets. Impairment testing requires a high degree of judgement in assessing whether the carrying value of assets is supported by their recoverable amount. The recoverable amount of the Bega Foods CGU has been determined using the 'value in use' approach.

In calculating the recoverable amount of the Bega Foods CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2022 to FY2026. A number of assumptions were made in respect of matters which are not certain, including the following key assumptions:

- a long-term nominal growth rate of 2% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 6.5%
- In FY2021 EBITDA was positively impacted by additional retail demand as a result of COVID-19. Given the uncertainty generated by the pandemic the Group has not forecast for this increased demand to be sustained and expects to return to normal levels of demand in FY2022. EBITDA growth over the forecast period is expected from new products, operational efficiencies and increases in pricing.

Using the above assumptions, the recoverable amount was not less than the carrying value of the Bega Foods CGU as at 30 June 2021 and as a result no impairment was required.

Sensitivity analysis

Management has considered the following changes in key assumptions to be reasonably possible

Variance from base case		
Long-term growth rate	0.5%	lower
Discount rate	1.0%	higher
Forecast EBITDA per annum	5.0%	lower

Based on the above sensitivity analysis, a reasonably possible change in any single assumption would not result in the recoverable amount of the Bega Foods CGU being lower than its carrying value as at 30 June 2021.

Bulk impairment assessment

Due to structural changes of the Group during the year, the Goodwill $117.0 million relating to the 2018 acquisition of the Koroit Processing Facility has been included within a new Bulk Segment CGU. The CGU includes all the assets of the Bulk Segment which incorporates the assets of the Tatura, Lagoon St (Bega), and Koroit manufacturing sites.

This view has been formed as the Bulk Segment is deemed to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The cash inflows of the Bulk Segment are driven by available milk volumes which is utilised across all manufacturing sites in the segment and can be diverted to the site that can produce the highest return on that milk.

This CGU is subject to annual impairment testing as it holds indefinite life intangible assets. Impairment testing requires a high degree of judgement in assessing whether the carrying value of assets is supported by their recoverable amount. The recoverable amount of the Bulk CGU has been determined using the 'value in use' approach.

14. Intangible assets (cont.)

In calculating the recoverable amount of the Bulk CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2022 to FY2026. A number of assumptions were made in respect of matters which are not certain, including the following key assumptions:

- a long-term nominal growth rate of 1.75% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 6.5%
- EBITDA of the CGU is expected to reduce in FY2022 reflecting higher opening farmgate milk prices. Beyond FY2022 farmgate milk prices and dairy commodity prices are expected to trend towards long term historical averages.
- Milk volumes are projected to reduce from FY2021 in FY2022 levels and are assumed to remain constant thereafter.

Using the above assumptions, the recoverable amount was not less than the carrying value of the Bulk CGU as at 30 June 2021 and as a result no impairment was required.

Sensitivity analysis
Management has considered the following changes in key assumptions to be reasonably possible

Variance from base case		
Long-term growth rate	0.5%	lower
Discount rate	1.0%	higher
Forecast EBITDA per annum	10.0%	lower

Based on the above sensitivity analysis, a reasonably possible change in any single assumption would not result in the recoverable amount of the Bulk CGU being lower than its carrying value as at 30 June 2021. However, if the actual EBITDA per annum is 17% lower than forecast into perpetuity, an impairment would occur where the CGU's recoverable amount would become lower than its carrying amount.

As a result of the annual impairment reviews, no impairment losses for the Group's CGUs have been recognised in the year.

15. Trade and other payables

	CONSOLIDATED	
	2021 $m	**2020** $m
Current liabilities		
Trade payables	315.5	201.8
Accrued charges and sundry creditors	161.9	31.5
Total trade and other payables	**477.4**	**233.3**

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 suppliers 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 Group and the supplier 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 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.

16. Other liabilities

	CONSOLIDATED 2021 $m	2020 $m
Current liabilities		
Deferred income	26.7	1.4
Trade Receivables Facility continuing involvement liability	16.1	18.7
Total current other liabilities	42.8	20.1
Non-current liabilities		
Deferred income	0.5	-
Total non-current other liabilities	0.5	-
Total other liabilities	**43.3**	**20.1**

17. Borrowings

	CONSOLIDATED 2021 $m	2020 $m
Non-current - at amortised cost		
Secured term loans	393.0	248.0
Borrowing costs	(1.1)	(0.8)
Total borrowings	**391.9**	**247.2**

For further details on borrowings and facilities, see note 24d.

18. Derivative financial instruments – liabilities

	CONSOLIDATED 2021 $m	2020 $m
Current liabilities		
Foreign currency forwards - cash flow hedges	2.1	0.1
Total derivative financial instruments - liabilities	**2.1**	**0.1**

For further details on derivatives, see note 24.

19. Provisions

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Current liabilities		
Employee benefits	90.7	49.5
Onerous contracts	11.4	-
Restructuring provision	6.3	-
Restoration provision	0.6	-
Other provisions	9.7	-
Total current provisions	118.7	49.5
Non-current liabilities		
Employee benefits	8.9	2.9
Onerous contracts	5.2	-
Restoration provision	10.5	-
Total non-current provisions	24.6	2.9
Total provisions	**143.3**	**52.4**

Consolidated	**Onerous contracts** $m	**Restructure provision** $m	**Restoration provision** $m	**Other provisions** $m	**Total** $m
Year ending 30 June 2021					
Balance at the beginning of the financial year	-	-	-	-	-
Provisional acquisitions through business combinations	21.3	3.9	11.0	8.3	44.5
Charged to profit or loss	-	14.1	0.1	2.7	16.9
Amounts used during the year	(4.7)	(11.7)	-	(1.3)	(17.7)
Balance at the end of the financial year	**16.6**	**6.3**	**11.1**	**9.7**	**43.7**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service. The amount of the provision presented as current of $90.7 million (2020: $49.5 million) 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 2021 $m	CONSOLIDATED 2020 $m
Current leave obligations expected to be settled after 12 months	22.8	11.9

20. Share capital

A. Share capital

	CONSOLIDATED	
	2021 $m	**2020** $m
Share capital - ordinary shares fully paid	**875.7**	**480.5**

B. Movement in share capital value and number of shares

	Ordinary shares Number '000	**Ordinary shares** $m
Ordinary shares on issue at 1 July 2019	213,734	477.5
Shares issued under Dividend Reinvestment Plan	703	3.0
Ordinary shares on issue at 30 June 2020	214,437	480.5
Ordinary shares on issue at 1 July 2020	214,437	480.5
Shares issued under Placement and Institutional Entitlement Offer	62,156	285.9
Shares issued under Retail Entitlement Offer	25,024	115.1
Shares issued under Dividend Reinvestment Plan	437	2.5
Shares issued to management under STI scheme	573	-
Share issue transaction costs, net of tax	-	(8.3)
Ordinary shares on issue at 30 June 2021	302,627	875.7

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.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital. There are no different rights, preferences or restrictions among the class of ordinary shares.

21. Reserves

	CONSOLIDATED	
	2021 $m	**2020** $m
Share-based payment reserve	6.8	0.4
Capital profits reserve	34.0	34.0
Hedging reserve	(2.3)	(1.0)
Transactions with non-controlling interests reserve	(12.6)	(12.6)
Total reserves	**25.9**	**20.8**

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 as a result of historical capital transactions.

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 36.

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 Industries Pty Ltd.

22. Notes to the Consolidated Statement of Cash Flows

	CONSOLIDATED	
	2021 $m	2020 $m
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	87.2	22.9
Balance per statement of cash flow	**87.2**	**22.9**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	72.2	21.3
Adjustments for non-cash, investing and financing items:		
Depreciation of non-current assets	61.8	37.6
Amortisation of intangible assets	11.0	7.1
Loss/(profit) on sale of property, plant and equipment	0.1	(0.3)
Write-off of intangible assets	0.4	-
Impairment of tangible assets	2.2	-
Impairment of intangible assets	-	0.1
Impairment of investments	-	1.0
Fair value adjustment to derivatives	0.2	(2.4)
Non-cash employee expense/(benefit) - share-based payments	6.4	(0.8)
Income from Reckitt termination fees not yet received	(16.0)	-
Share of profit of equity accounted investments	(1.2)	(0.1)
Gain on bargain purchase	(67.7)	-
Gain on equity interest	(2.3)	-
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other debtors and GST recoverable	8.6	61.0
Inventories	(13.8)	15.3
Prepayments	8.1	13.4
Current and deferred tax assets	6.6	(2.0)
Increase/(decrease) in liabilities:		
Trade and other payables	19.1	(14.9)
Provision for income taxes payable excluding taxation on investments	17.8	-
Changes in provisions	(2.1)	1.7
Net cash flow from operating activities	**111.4**	**138.0**

23. 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 Group and that are believed to be reasonable under the circumstances.
In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 7 - income tax, note 8 - trade and other receivables, note 11 - inventories, note 14 - intangible assets, note 15 - trade and other payables and note 28 - business combination.

24. Financial risk management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk and interest rate 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 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 and Japanese Yen. 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 and options are currently 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.

24. Financial risk management (cont.)

The Group's exposure to foreign exchange risk at the end of the reporting period is expressed as follows:

Consolidated	Contract amount $m	Contract amount in foreign currency m	Weighted average forward rate	Market value assets $m	Market value liabilities $m
At 30 June 2021					
Cash flow hedges					
US Dollar (sell)	75.2	57.9	0.7695	-	(2.0)
Japanese Yen (sell)	2.2	179.4	83.3564	-	(0.1)
Options					
US Dollar (Bought call)	82.7	64.8	0.7831	1.1	-
At 30 June 2020					
Cash flow hedges					
US Dollar (sell)	64.3	42.2	0.6856	0.8	-
Euro (sell)	2.7	1.6	0.6105	-	(0.1)
Japanese Yen (sell)	2.2	165.8	73.7603	-	-
Fair value hedges					
Euro (sell)	(4.3)	(2.6)	0.6097	-	-
US Dollar (sell)	(45.6)	(30.7)	0.6802	0.5	-

Group sensitivity

The Group sensitivity for cash flow exposures is based on the financial instruments held on 30 June 2021, had the Australian dollar strengthened or weakened by 10% against the US dollar with all other variables held constant. The analysis is performed on the same basis for 2020 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 sensitivity on the Group's hedging instruments is detailed in the following table:

	CONSOLIDATED	
	2021 $m	**2020** $m
Equity		
AUD strengthens 10% - increase	6.4	2.8
AUD weakens 10% - (decrease)	(7.3)	(3.5)

24. Financial risk management (cont.)

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 as appropriate to manage interest rate risk. Due to a sustained low market interest rates, there were no interest rate swaps in place at 30 June 2020 or 2021 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 2021 and 2020.

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

	CONSOLIDATED	
	2021 $m	**2020** $m
Fixed rate instruments		
Assets		
Vat and supplier loans	0.1	0.1
Liabilities		
Lease liabilities	(104.6)	(11.3)
Variable rate instruments		
Assets		
Cash and cash equivalents	87.2	22.9
Liabilities		
Bank overdrafts and loans	(391.9)	(247.2)
Net exposure to interest rate risk on variable rate instruments	**(304.7)**	**(224.3)**

An analysis by maturities is provided in note 24e.

Interest rate sensitivity

At 30 June 2021, 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 $1.7 million higher/(lower) (2020: $2.1 million 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 and note 10. 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.

24. Financial risk management (cont.)

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2021 $m	2020 $m
Cash and cash equivalents	87.2	22.9
Trade receivables	294.4	30.9
Accrued revenue	5.8	12.0
Other receivables	37.4	23.8
Fair value derivatives	1.1	1.3
Total credit risk exposure	**425.9**	**90.9**

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 Group manages amounts payable by direct milk suppliers to the Group for supplier advances, loans or other prepayments for milk so as to mitigate any material exposure to default.

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. The expected impairment loss calculation for trade receivables considers the impact of past events, and exercises judgment over the impact of current and future economic conditions when considering the recoverability of outstanding trade receivable balances at the reporting date. Subsequent changes in economic and market conditions may result in the provision for impairment losses increasing or decreasing in future periods.

Consolidated	Current $m	More than 30 days past due $m	More than 60 days past due $m	More than 90 days past due $m	Total $m
Year ending 30 June 2021					
Expected loss rate	0.2%	3.8%	11.1%	63.3%	
Gross carrying amount - trade receivables	275.9	11.2	3.8	12.9	303.8
Loss Allowance	0.4	0.4	0.4	8.2	9.4
Year ending 30 June 2020					
Expected loss rate	0.0%	0.0%	0.0%	54.4%	
Gross carrying amount - trade receivables	30.4	-	-	1.1	31.5
Loss Allowance	-	-	-	0.6	0.6

	CONSOLIDATED	
	2021 $m	2020 $m
Opening loss allowance	0.6	0.1
Acquisitions through business combinations	8.8	-
Increase in loss allowance recognised in profit or loss during the year	0.1	0.5
Receivables written off during the year as uncollectible	(0.1)	-
Closing loss allowance	9.4	0.6

24. 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.

D. Financing arrangements

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

	CONSOLIDATED	
	2021 $m	**2020** $m
Undrawn facilities expiring within one year	100.0	100.0
Undrawn facilities expiring beyond one year	87.0	168.5
Drawn facilities	393.0	248.0
Total facilities	**580.0**	**516.5**
Total facilities are represented by:		
Syndicated Facility - Revolving Cash Advance Facility maturing 10 November 2023	140.0	70.0
Syndicated Facility - Revolving Cash Advance Facility maturing 10 November 2023	140.0	140.0
Syndicated Facility - Revolving Cash Advance Facility maturing 30 September 2022	100.0	100.0
Syndicated Facility - Term Facility maturing 30 September 2022	100.0	100.0
Inventory Facility	100.0	100.0
Overdraft Facility	-	6.5
Total facilities	**580.0**	**516.5**

The Group financing arrangements include a syndicated facility funded by Coöperatieve Rabobank U.A. (Australia Branch) (Rabobank) and Westpac Banking Corporation (Westpac), (Syndicated Debt Facility). The Syndicated Debt Facility includes three revolving cash advance facilities totalling $380 million (with maturity dates between 30 September 2022 and 31 November 2023) and a term facility totalling $100 million (with a maturity date of 30 September 2022).

In addition to the Syndicated Debt Facility, the Group continues to operate a stand-alone Inventory Facility (matures on 30 March 2022) and is not subject to cross-charges or cross-guarantees, except as disclosed in note 26.

The Syndicated Debt Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited and its subsidiaries subject to the Deed of Cross Guarantee as disclosed in note 27.

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

i. the leverage ratio is not greater than 3.00 times;

ii. the interest cover ratio must be equal or greater than 2.50 times; and

iii. shareholder funds must be equal or greater than $750 million.

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

24. Financial risk management (cont.)

E. 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 $m	1-2 years $m	2-5 years $m	>5 years $m	Total contractual cash flows $m	Carrying amount $m
At 30 June 2021						
Non-derivatives						
Lease liabilities	(26.2)	(22.6)	(44.0)	(37.9)	(130.7)	(104.6)
Secured bank loans	(7.3)	(145.4)	(254.8)	-	(407.5)	(391.9)
Trade and other payables	(477.4)	-	-	-	(477.4)	(477.4)
Derivatives						
Inflows	75.4	-	-	-	75.4	-
Outflows	(77.4)	-	-	-	(77.4)	(2.1)
Total financial liabilities	**(512.9)**	**(168.0)**	**(298.8)**	**(37.9)**	**(1,017.6)**	**(976.0)**
At 30 June 2020						
Non-derivatives						
Lease liabilities	(3.5)	(3.2)	(5.6)	(0.4)	(12.7)	(11.3)
Secured bank loans	(6.2)	(53.3)	(201.3)	-	(260.8)	(247.2)
Trade and other payables	(233.3)	-	-	-	(233.3)	(233.3)
Derivatives						
Inflows	44.0	-	-	-	44.0	-
Outflows	(42.9)	-	-	-	(42.9)	(0.1)
Total financial liabilities	**(241.9)**	**(56.5)**	**(206.9)**	**(0.4)**	**(505.7)**	**(491.9)**

F. 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 financial assets at fair value 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. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
ii. Level 2: 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);
iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. Financial risk management (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 2 $m	Level 3 $m	Total $m
At 30 June 2021			
Assets			
Foreign currency options	1.1	-	1.1
Total assets	**1.1**	**-**	**1.1**
Liabilities			
Foreign currency forwards - cash flow hedges	(2.1)	-	(2.1)
Total liabilities	**(2.1)**	**-**	**(2.1)**
At 30 June 2020			
Assets			
Foreign currency forwards - cash flow hedges	0.8	-	0.8
Foreign currency forwards - fair value hedges	0.5	-	0.5
Financial assets at fair value through other comprehensive income (FVOCI) - unlisted equity securities	-	0.7	0.7
Total assets	**1.3**	**0.7**	**2.0**
Liabilities			
Foreign currency forwards - cash flow hedges	(0.1)	-	(0.1)
Total liabilities	**(0.1)**	**-**	**(0.1)**

25. 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	
	2021 $m	2020 $m
Borrowings	391.9	247.2
Add back: borrowing costs	1.1	0.8
Unrecognised bank guarantees	19.1	6.1
Cash and cash equivalents	(87.2)	(22.9)
Net debt	**324.9**	**231.2**
Total equity	1,260.7	814.0
Net debt to equity ratio	**26%**	**28%**

Group structure

26. Parent entity financial information

A. Summary financial information

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

	BEGA CHEESE	
	2021 $m	**2020** $m
Current assets	481.1	424.0
Total assets	1,978.7	1,406.4
Current liabilities	(583.7)	(507.4)
Total liabilities	(1,025.7)	(805.3)
Net assets	**953.0**	**601.1**
Shareholder's equity		
Issued capital of parent entity	879.0	481.1
Reserves		
Share-based payment reserve	1.7	0.4
Capital profits reserve	32.6	32.6
Hedging reserve	(1.3)	-
Retained earnings	41.0	87.0
Total equity	**953.0**	**601.1**
(Loss)/profit after tax for the year	(20.2)	13.2
Total comprehensive (loss)/income	(20.9)	13.0

Current assets and liabilities of Bega Cheese include intercompany loans.

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 subsidiaries as described in note 27.

C. Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2021 or 30 June 2020 except as disclosed in note 30.

D. Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2021, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $5.6 million (2020: $3.8 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

27. Subsidiaries, joint arrangements and associates

	Country of incorporation	Nature of relationship	2021 % of ownership interest	2020 % of ownership interest
180 Nutrition Pty Ltd	Australia	Subsidiary	100	61
BDD Australia Pty Ltd*	Australia	Subsidiary	100	-
BDD Foods Pty Ltd*	Australia	Subsidiary	100	-
BDD Milk Pty Ltd*	Australia	Subsidiary	100	-
Bega Cheese Benefit Fund Ltd	Australia	Subsidiary	100	100
Bega Cheese Investments Pty Ltd	Australia	Subsidiary	100	100
Bega Dairy and Drinks Pty Ltd*	Australia	Subsidiary	100	-
Bega Dairy and Drinks Finance Pty Ltd*	Australia	Subsidiary	100	-
Bega Dairy and Drinks (NZ) Ltd	New Zealand	Subsidiary	100	-
Bega Dairy and Drinks Services Pty Ltd*	Australia	Subsidiary	100	-
Bega Insurance Pte Ltd	Singapore	Subsidiary	100	-
Berri Pty Ltd*	Australia	Subsidiary	100	-
Berri Asia Sdn Bhd	Malaysia	Subsidiary	100	-
Blowflex Mouldings Pty Ltd*	Australia	Subsidiary	100	-
Capitol Chilled Foods (Australia) Pty Ltd*	Australia	Subsidiary	100	25
Dairy & Drinks Singapore Pte Ltd	Singapore	Subsidiary	100	-
Dairy Farmers Pty Ltd*	Australia	Subsidiary	100	-
Dairy Vale Foods Pty Ltd*	Australia	Subsidiary	100	-
Malanda Dairyfoods Pty Ltd*	Australia	Subsidiary	100	-
National Foods Holdings Ltd*	Australia	Subsidiary	100	-
National Foods Beverage Holdings Pty Ltd*	Australia	Subsidiary	100	-
Peanut Company of Australia Pty Ltd*	Australia	Subsidiary	100	100
QUD Pty Ltd*	Australia	Subsidiary	100	-
Shanghai Great Lion Food & Beverages Management Co Ltd	China	Subsidiary	100	-
Tatura Milk Industries Pty Ltd*	Australia	Subsidiary	100	100
Tatura Cheese Industries Pty Ltd	Australia	Subsidiary	100	100
Vitasoy Australia Products Pty Ltd	Australia	Associate	49	-
CBH Fresh Ltd	Australia	Joint venture	20	-

* A party to the Deed of Cross Guarantee dated 21 February 2021

Interest in joint venture

Capitol Chilled Foods (Australia) Pty Ltd (CCFA)

The principal activity of the joint venture is liquid milk and chilled food distribution. As part of the Lion Dairy and Drinks acquisition the Group acquired the 75% remaining interest in CCFA. The Group financial statements include the following results of the joint venture up to the date of full acquisition:

	CCFA	
	2021 $m	**2020** $m
Share of profit of equity accounted investments	0.4	0.1
Investments accounted for using the equity method	-	1.4

27. Subsidiaries, joint arrangements and associates (cont.)

Interest in associate
Vitasoy Australia Products Pty Ltd (Vitasoy)

The interest in Vitasoy was acquired as part of the Lion Dairy and Drinks acquisition. The principal activity of the associate is the manufacture, marketing and sales and distribution of plant-based beverages. The Group financial statements include the following results of the associate from the date of acquisition:

	VITASOY	
	2021 $m	**2020** $m
Share of profit of equity accounted investments	0.8	-
Investments accounted for using the equity method	46.6	-

Accounting policies applied for associates are described in note 36b.

28. Business combination

Lion Dairy and Drinks
On 25 January 2021 the Group completed the acquisition of 100% of shares in Lion Dairy and Drinks legal entities, renamed Bega Dairy and Drinks. Bega Dairy and Drinks' core business is the manufacture, marketing and sales and distribution of Milk Based Beverages, Yogurt, Chilled Juices, Cream and Custard and White Milk. The results of these entities are included in the Branded segment from the date of acquisition.

The accounting for the acquisition has been provisionally determined as at 30 June 2021 as the acquisition-date fair value process is well progressed. Management is continuing to assess the fair value of the opening balance sheet which will result in adjustments to the fair value attributable to the net assets acquired as reported below.

	Provisional fair value $m
Cash and cash equivalents	13.7
Trade and other receivables	229.5
Inventories	73.8
Intangible assets	41.8
Property, plant and equipment	487.0
Right-of-use assets	101.3
Investments accounted for using the equity method	45.8
Deferred tax assets	19.5
Trade and other payables	(208.2)
Lease liabilities	(99.2)
Provisions	(89.5)
Deferred tax liabilities	(15.5)
Provisional fair value of identifiable net assets acquired	**600.0**
Purchase consideration:	
Cash paid	(528.2)
Adjustment for pre-acquisition ownership in CCFA	(4.1)
Total purchase consideration	(532.3)
Provisional gain on bargain purchase	67.7

Total acquisition-related costs incurred to date are $63.8 million (before tax). The total costs have been incurred in the current financial year. These acquisition costs are not included in the purchase consideration disclosed above. These costs are included in the Group's consolidated statement of comprehensive income for the year ended 30 June 2021 and are disclosed as a significant item (see note 2).

The net cash paid including acquired cash and cash equivalents was $514.5 million.

28. Business combination (cont.)

A provisional bargain purchase gain of $67.7 million has been recognised in the Group's consolidated statement of comprehensive income for the year ended 30 June 2021 as the provisional fair value of the net assets of the acquired business is greater than the consideration paid. A provisional gain on bargain purchase was recognised given the acquisition-date fair value process is well progressed. The gain will not be assessable income for tax purposes

The acquisition date fair value of CCFA was $16.4 million, resulting in a gain of $2.3 million on Bega's existing investment. Property, plant and equipment and land and buildings were the most significant balances consolidated by the Group in relation to CCFA on acquisition.

The fair value of acquired trade receivables is $225.8 million. The gross contractual amount for trade receivables due is $234.6 million, of which $8.8 million is expected to be uncollectible.

There were no acquisitions in the year ending 30 June 2020.

29. Closed group disclosure

Entities that are party to a Deed of Cross Guarantee under which each company guarantees the debts of the other are included in note 27. These companies represent a "closed group" for the purposes of the Instrument 2016/785, issued by the Australian Securities and Investments Commission. By entering into the deed these entities have been relieved from the requirement to prepare a financial report and Directors' report under the Instrument.

The statement of Comprehensive Income and the Balance Sheet for this closed group are shown below:

	CLOSED GROUP	
	2021 $m	2020 $m
Profit before income tax	**97.7**	**31.0**
Income tax expense	(25.2)	(9.7)
Profit for the year	**72.5**	**21.3**

	CLOSED GROUP	
	2021 $m	2020 $m
ASSETS		
Current assets		
Cash and cash equivalents	82.5	22.9
Trade and other receivables	348.1	69.5
Derivative financial instruments	1.1	1.3
Inventories	344.9	257.4
Current tax assets	13.3	10.7
Other assets	37.9	47.9
Total current assets	**827.8**	**409.7**
Non-current assets		
Financial assets at fair value through other comprehensive income	-	0.7
Property, plant and equipment	908.5	446.0
Right-of-use assets	103.4	8.8
Deferred tax assets	4.6	6.7
Other assets	0.1	2.0
Intangible assets	589.5	548.1
Investments accounted for using the equity method	46.6	1.4
Total non-current assets	**1,652.7**	**1,013.7**
Total assets	**2,480.5**	**1,423.4**

29. Closed group disclosure (cont.)

	CLOSED GROUP	
	2021 $m	2020 $m
LIABILITIES		
Current liabilities		
Trade and other payables	477.1	233.3
Other liabilities	42.8	20.1
Derivative financial instruments	2.1	0.1
Lease liabilities	25.5	3.0
Current tax liabilities	18.4	-
Provisions	118.6	49.5
Total current liabilities	**684.5**	**306.0**
Non-current liabilities		
Borrowings	391.9	247.2
Lease liabilities	79.1	8.3
Other liabilities	0.5	-
Provisions	24.5	2.9
Deferred tax liabilities	44.4	45.0
Total non-current liabilities	**540.4**	**303.4**
Total liabilities	**1,224.9**	**609.4**
Net assets	**1,255.6**	**814.0**
EQUITY		
Share capital	867.7	480.5
Reserves	24.9	20.8
Retained earnings	363.0	312.7
Total equity	**1,255.6**	**814.0**

Unrecognised items

30. Contingent liabilities

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 14). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. The Group is currently subject to separate legal actions by Fonterra (see note 1), the outcome of which is uncertain at the date of this report. Based on all available information and professional advice, management considers there are no significant contingent liabilities at 30 June 2021. The Group has bank guarantees as at 30 June 2021 totalling $19.1 million (2020: $6.1 million).

31. Commitments

Capital commitments

	CONSOLIDATED	
	2021 $m	2020 $m
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	9.1	4.7

32. Subsequent events

The financial impact of the transactions set out below which occurred after 30 June 2021 has not been recognised in these financial statements.

A. Dividend

On 27 August 2021, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $ 15.1 million.

The Group's Dividend Reinvestment Plan (DRP) will be activated for the FY2021 final fully franked dividend. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares allocated under the DRP will be derived from new issued ordinary shares. The shares issued rank pari passu with other ordinary shares already on issue. The allocation price will be determined in accordance with the DRP rules as the arithmetic average of the daily volume weighted average market price of all Bega Cheese Limited shares sold through a normal trade on the ASX trading system over the five business days commencing on the day of the record date.

A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the FY2021 final fully franked dividend to be paid on 24 September 2021 must be recorded by the registry by 5:00 pm on 3 September 2021 to be effective for that dividend.

Further details

33. 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 year until full acquisition, the Group had the following transactions with CCFA:

	CONSOLIDATED	
	2021 $m	2020 $m
Sales made to CCFA	4.0	8.1
Rent paid by CCFA to Bega Cheese	0.1	0.2
Amounts payable by CCFA to Bega Cheese at period end	-	1.9

After completion of the BDD acquisition, the Group had the following transactions with Vitasoy:

	CONSOLIDATED	
	2021 $m	2020 $m
Sales made to Vitasoy by BDD	5.0	-
Management fees paid by Vitasoy to BDD	2.3	-
Other charges paid by Vitasoy to BDD	3.5	-
Dividend paid by Vitasoy to BDD	1.0	-

Further details of the joint venture and associate are included in note 27.

33. Related party transactions (cont.)

C. Key management personnel remuneration and transactions

	CONSOLIDATED	
	2021 $	2020 $
Short-term employee benefits	3,640,776	2,879,082
Post-employment benefits	153,479	146,965
Other long-term employee benefits	410,723	107,975
Share-based payments	241,322	(193,881)
Total employee benefits	**4,446,300**	**2,940,141**

During the year, some KMP and their related entities engaged in related party transactions with Bega Cheese Group relating to the supply of milk and sale of peanuts. These transactions were on the same normal commercial terms as other suppliers and customers and are summarised in the table below:

	CONSOLIDATED	
	2021 $	2020 $
Payments made by the Group during the year	5,610,521	8,440,785
Sales made by the Group during the year	406,130	344,374
Amounts outstanding at year end	255,893	521,141
Amounts receivable at year end	50,707	34,768

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

34. Remuneration of auditors

	CONSOLIDATED	
	2021 $	2020 $
Audit services		
PwC Australia - Audit and review of financial statements	1,467,270	870,261
Non-audit services		
PwC Australia - Other services	853,000	38,250
PwC Australia - Assurance services	929,000	-

From time to time the Group may engage PwC Australia on assignments additional to the statutory audit duties where their experiences with the Group is important, provided such assignments do not give rise to a potential conflict of interest. During the current year PwC provided non-audit services relating to the Acquisition of BDD, GST compliance, tax compliance and share schemes.

35. Share-based payments

Expenses arising from Bega Cheese Limited Long-Term Incentive and Short-Term Incentive Plans

The Long-term Incentive Plans (LTIs) are designed to provide long-term incentives to the CEO and executive team to deliver shareholder returns. Under the 2019-2021 LTI Plan (2021 Plan), the 2020-2022 LTI Plan (2022 Plan) and the 2021-2023 LTI Plan (2023 Plan), each member of the executive team is granted share rights which only vest if certain performance standards are met.

The total number of performance rights outstanding at 30 June 2021 was 646,341 (2020: 349,081). The 2021 Plan did not vest, resulting in a write-back of amounts expensed in previous years.

Certain executives and staff have been awarded Short-term Incentive (STI) payments that will be partly made in the form of Bega Cheese Limited Shares.

Details of the movements in LTI performance rights are disclosed in the Remuneration Report.

35. Share-based payments (cont.)

	CONSOLIDATED	
	2021 $	2020 $
Entitlements due under employee share schemes		
Expense/(benefit) in relation to LTIs and STIs	6.4	(0.8)
Total employee share scheme expense/(benefit)	**6.4**	**(0.8)**

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

36. 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 27 August 2021. 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).

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 2020.

Adoption of new standards

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

Change of accounting policy - Software-as-a-Service (SaaS) arrangements

During the year ended 30 June 2021, the Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements with cloud providers. The change in accounting policy resulted from the implementation of agenda decisions issued by the IFRIC Interpretations Committee (IFRIC) clarifying its interpretation of how current accounting standards apply to these types of arrangements.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application over the contract period. The Group previously capitalised costs incurred in configuring or customising SaaS arrangements as intangible assets, as the Group considered that it would benefit from those costs to implement the SaaS arrangements over the software's useful life.

The treatment set out in the IFRIC agenda decision requires that the costs incurred can only be recognised as an intangible asset if the implementation activities create a separate resource that the entity controls. Costs that do not result in intangible assets are recognised as operating expenses when the services are received.

As a result of this change in accounting policy, the Group has determined FY2021 costs totalling $2.1 million relating to the configuration and customisation of SaaS arrangements would need to be expensed as the amounts paid did not create separate intangible assets controlled by the group.

The change in policy has been applied retrospectively and no comparative information has been required to be restated.

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).

36. Summary of significant accounting policies (cont.)

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 23. Certain items in the Consolidated Statement of Cash Flows have been reclassified in the prior period to better reflect their nature as operating activities rather than investing activities.

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 2021 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' and the 'consolidated entity'.

Subsidiaries are all 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 ventures and associates

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

Details relating to the joint venture and associates are set out in note 27.

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 are responsible for allocating resources and assessing performance of the reporting segments, are the Executive Chairman, the Chief Executive Officer and the Chief Financial Officer.

D. Foreign currency translation

Functional and presentation currency

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

36. Summary of significant accounting policies (cont.)

E. Revenue recognition

Revenue is recognised to the extent that the Group satisfies a performance obligation where control of the goods or services passes to the customer, and the transaction price can be readily identified. Revenue is measured at the agreed price being the amount to which the entity expects to be entitled in exchange for goods and services. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Judgement is used in assessing revenue from 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 Group and the customer as to the amount receivable under the contracts. Such differences are usually resolved amicably between the parties having regard to the relevant contract.

Advertising of Bega-owned retail brands in conjunction with certain customers where the Group has some control over the way the money is invested, and a similar service could be provided by another party, the cost of this activity has been recognised separately as an advertising expense, consistent with prior periods.

The Group does not have any contracts where the period between the transfer of the promised product or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

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 at a point in time when the Group has passed control of promised goods or assets to the customer. Transfer of control to the customer occurs when the product has been shipped to the location specified by the customer and the customer accepts the product. The delivery terms include cost and freight (CFR) and cost, insurance and freight (CIF). These terms mean the Group is responsible for providing shipping services up until the date at which control of the goods passes to the customer. The Group assesses these sales at December and June reporting period and adjusts for those where control has not transferred to the customer.

Rebates and sale incentives to customers that have variable consideration are only included in revenue when it is highly probable that the inclusion will not result in significant adjustments in the future.

The Group procures some ingredients from customers which are used to produce finished goods sold to the same customers. Payments for these ingredients are offset against the revenue earned from those customers where the payments are not deemed to be for distinct goods or services as defined in the standard. The Group has not recognised the ingredients purchased from customers as inventory, instead recognising the items in other assets.

Services

Revenue from services relating to certain production agreements with customers is recognised over time in the reporting period in which the performance obligation is met.

Royalties and rental revenue

Revenue is recognised over time on an accruals basis in accordance with the substance of the relevant agreement. Royalties and licence fees for use of its brand names with customers is recognised when the performance obligation is satisfied (for the use of intellectual property).

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.

36. Summary of significant accounting policies (cont.)

G. Income tax

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

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

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

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

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

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

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

H. Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If the fair value of the net identifiable assets acquired exceeds the consideration transferred this amount is recognised immediately as a gain on bargain purchase in the Consolidated Statement of Comprehensive Income.

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.

I. Impairment of assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets or cash generating units (CGUs).

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value measurement is covered by AASB 13 and defines fair value of an asset as the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The Group uses a discounted cash flow model to assess the value in use for impairment testing purposes of its CGUs.

36. Summary of significant accounting policies (cont.)

The Group uses discounted cash flow modelling to assess the value in use for impairment testing. The estimated future cash flows are based on reasonable underlying financial and operational assumptions at the time including having regard to each of:

- recent actual historical performance
- business plans, budgets and other forecasts reflecting the short to medium-term outlook
- strategic plans defining the longer-term outlook and strategy approved for the business and related identifiable intangible assets.

The future cash flows are discounted to their present value using a discount rate reflecting the appropriate weighted average cost of capital based on capital market conditions, risk free rates, underlying growth rates and the risks specific to the asset at the time of the assessment. Key cash flow and discount rate assumptions are based on management judgement and also refer to external data and input from independent experts as required.

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

J. Cash and cash equivalents

For the purpose of presentation in the Consolidated 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.

K. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 60 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.

A loss allowance provision (allowance for impairment of trade receivables) is recognised for the lifetime expected credit losses from trade receivables. The loss allowance considers the impact of past events including historical loss rates, and exercises judgment over the impact of current and future economic conditions when considering the recoverability of outstanding trade receivable balances at the reporting date. Subsequent changes in economic and market conditions may result in the loss allowance provision increasing or decreasing in future periods.

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.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Group transferred substantially all the risk and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

When the Group transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

36. Summary of significant accounting policies (cont.)

L. 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 or other appropriate cost allocation apportionments.

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.

M. Other assets

Other assets

The Group procures some ingredients from customers which are used to produce finished goods sold to the same customers. Payments for these ingredients are offset against the revenue earned from those customers where the payments are not deemed to be for distinct goods or services as defined in the standard.

The Group has not recognised the ingredients purchased from customers as inventory, instead recognising the items in other assets.

Prepayments

The Group recognises upfront payments to suppliers for exclusive supply as a prepayment on the balance sheet. The prepayments are amortised on a straight-line basis over the period of exclusive supply. The Group mitigates the credit risk of direct milk suppliers through management of payables to the suppliers.

N. Investments and other financial assets

Loans and receivables

The Group classifies its investments in the following categories: loans and receivables and financial assets at fair value through other comprehensive income 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 on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 24 for further details.

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.

Financial assets at fair value through other comprehensive income (FVOCI)

Certain shares held by the Group are classified as being financial assets at fair value through other comprehensive income (FVOCI) and are stated at fair value. Fair value is determined in the manner described in note 23. 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.

36. Summary of significant accounting policies (cont.)

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 options. 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 24. 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.

36. Summary of significant accounting policies (cont.)

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

- buildings, 10 to 50 years
- plant and equipment, 2 to 30 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. Leases

The Group leases various Buildings (Offices and Warehouses), Motor Vehicles and Equipment (Forklifts and Other Equipment). The building rental agreements are generally for fixed periods between 2 and 20 years with options to extend for further 1 to 10 years. Other lease contracts are typically made for fixed periods of between 2 and 10 years. Leases identified as Short term (12 months or less) and low value will continue to be recognised in the profit or loss as a lease expense. Lease terms are negotiated on an individual bases and contain a wide range of different terms and conditions.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non lease components when possible, however for real estate for which the group is lessee, it has elected not to separate and includes all non lease components as a single lease component.

Lease liabilities are recognised by the Group at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments and variable lease payments that depend on an index or rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The incremental borrowing rate is used unless the implicit interest rate in the lease is readily determined. The lessee's incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security, and conditions. Determining the incremental borrowing rate requires significant judgement. The discount rate is derived from key external market-based rates, the Group's credit margin, location of the asset and the length of the lease.

Right-of-use lease assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use lease assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentive received. Right-of-use lease assets are depreciated on a straight line basis in the profit or loss over the lease term.

R. 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.

36. Summary of significant accounting policies (cont.)

Brands and other identifiable intangible assets
Brands and other identifiable intangible assets purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination.

These identifiable intangible assets are subsequently measured:

- if they have a finite life, at cost less amortisation, and
- if they have an indefinite life, at cost less accumulated impairment losses.

Finite life brands or other identifiable intangible assets are amortised on a straight-line basis over the shorter of their contractual or useful economic life, being three to 25 years. They are also tested for impairment when an indicator of impairment may exist.

Indefinite life identifiable intangible assets are not amortised but are instead tested for impairment annually, or more frequently if there is an indicator of impairment. Brands or other identifiable intangible assets are determined to have an indefinite life where there is an intention to maintain and support the brand or other intangible asset for an indefinite period.

Such assets are tested for impairment in accordance with the policy stated in note 36j.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. For SaaS arrangements, the Group assesses if the contract will provide a resource that it can control to determine whether an intangible asset is present. If the Group cannot determine control of the software, the arrangement is deemed a service contract and any implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when incurred.

Costs incurred to obtain access to the cloud provider's application software are generally recognised as operating expenses when the services are received.

Costs incurred for the development of software code that enhances, modifies or creates additional capability to existing for on-premise are capitalised if it meets the recognition criteria for an intangible asset.

Certain internal and external costs directly incurred in acquiring and developing software are capitalised if it they meet the recognition criteria of an Intangible asset and are amortised on a straight-line basis over their estimated useful lives, being 3 to 10 years.

Capitalised costs are tested for impairment when an indicator of impairment exists.

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 assets 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.

S. 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.

T. 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.

36. Summary of significant accounting policies (cont.)

U. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Restoration provisions

Provisions for the costs to restore (make good) leased plant assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

V. Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and vesting 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.

36. Summary of significant accounting policies (cont.)

Share-based payments

The fair value of rights granted under the Bega Cheese Limited 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.

W. Contributed equity

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

X. Dividends

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

Y. Earnings per share

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.

Diluted earnings per share

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

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

Z. Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

36. Summary of significant accounting policies (cont.)

AA. Goods and Services Tax (GST)

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

AB. Rounding of amounts

The Company is of a kind referred to in 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 hundred thousand dollars, or in certain cases, the nearest dollar.

AC. Parent entity financial information

The financial information for the parent entity, Bega Cheese, disclosed in note 26 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.

Director's Declaration

In the Directors' opinion

a. the financial statements and notes set out on pages 58 to 107 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 2021 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, 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 27 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 27.

Note 36a confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

27 August 2021

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Independent auditor's report

To the members 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 2021 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 2021
- 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 consolidated financial statements, which include significant accounting policies and other explanatory information
- 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

Materiality

- For the purpose of our audit we used overall Group materiality of $5.1 million, which represents approximately 0.25% of the Group's revenue.
- 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 revenue because, in our view, revenue is reflective of the Group's operating activities and provides a level of materiality which, in our view, is appropriate for the audit having regard to the expected requirements of users of the Group's financial report.
- We utilised a 0.25% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

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***

Accounting for business combination – Lion Dairy and Drinks
(Refer to note 28)
 	
The Group acquired Lion Dairy & Drinks (renamed Bega Dairy & Drinks) during the financial year for a total purchase consideration of $528.2 million and recorded a provisional gain on bargain purchase of $67.7 million. The details of the acquisition are disclosed in note 28.
 	
The business combination accounting was a key audit matter because of the magnitude of the acquisition and judgement involved in determining provisional fair values for Bega Dairy and Drinks' opening balance sheet.
 	
The Group applied judgement when accounting for the acquisition, including identifying assets and liabilities of the newly acquired business and estimating the fair value of each asset and liability for initial recognition.
	Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:
	• evaluating the Group's provisional business combination accounting against the requirements of Australian Accounting Standards, key transaction agreements, our understanding of the business acquired and its industry and minutes of directors' meetings.
	• assessing the fair values of the acquired assets and liabilities recognised, including:
	   o considering key assumptions used in the asset valuations that estimated fair value in light of historical performance and market data
	   o considering the valuation methodology in the asset valuation models in light of the requirements of Australian Accounting Standards
	   o considering the appropriateness and completeness of provisions recognised
	   o assessing the competence and capability of management's experts
	• assessing the mathematical accuracy of the Group's calculation of the resulting provisional gain on bargain purchase.
	• considering the adequacy of the business combination disclosures in note 28 in light of the requirements of Australian Accounting Standards.

Cloud computing arrangements *(Refer to note 14 and note 36)* At the year end, the Group has recognised software intangible assets of $57 million and disclosed a change in accounting policy. The accounting for cloud computing arrangements was a key audit matter due to the magnitude of software costs recognised as intangible assets on the balance sheet at 30 June 2021 and the judgement required by the Group in determining an appropriate accounting treatment in light of the Australian Accounting Standards and recent IFRIC Agenda decisions.	Assisted by PwC technical accounting specialists in aspects of our work, our procedures included the following, amongst others: • evaluating the Group's previously capitalised software costs in light of the requirements of Australian Accounting Standards and recent IFRIC Agenda decisions. • understanding and assessing the Group's cloud computing software arrangements through reviewing the relevant legal contracts and related legal advice received. • evaluating management's assessment to determine whether software costs should be derecognised.

- considering the adequacy of the change in accounting policy disclosure in note 36 in light of the requirements of Australian Accounting Standards.

The carrying value of goodwill and other indefinite lived intangible assets - Bega Foods and Bulk
(Refer to note 14)

At the year end, the Group has recognised goodwill and indefinite lived intangible assets in relation to the Bega Foods and Bulk cash generating units (CGUs) of $487.3 million. The Group assesses goodwill and other indefinite lived intangible assets for impairment annually at the CGU level.

The carrying value of goodwill and other indefinite lived intangibles was a key audit matter due to:

- The magnitude of the goodwill and indefinite lived intangible asset balances held by the Group.
- The judgement required in determining a change in the Group's CGUs.
- The judgement required by the Group in assessing whether an impairment was required.

Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:

- obtaining the Group's value in use models for the Bega Foods and Bulk CGUs and checking the mathematical accuracy of the calculations.
- considering whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations and in compliance with Australian Accounting Standards.
- evaluating the Group's cash flow forecasts included in the value in use models and the process by which they were developed, with reference to the historical performance of the businesses.
- comparing the forecasts in the models to the Board approved budget.
- assessing key growth assumptions within the models for reasonableness with reference to external market data where possible.
- assessing the methodologies and the main assumptions included in the models. In particular, comparing the discount and long term growth rates used in the models with rates generally observed in the industry.
- assessing the sensitivity of the calculations by varying the key assumptions, using a range of possible rates.
- considering the accounting policies and disclosures in note 14 in light of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, 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 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.

pwc

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 36 to 50 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2021 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

P.J. Carney

Paddy Carney
Partner

Sydney
27 August 2021

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2021:

Distribution of Equity Securities

Holding	Number
1 – 1,000	7,054
1,001 – 5,000	5,243
5,001 – 10,000	1,573
10,001 – 100,000	1,197
100,001 and over	176
	15,243

There were 634 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:

Investor	Name	Number of Shares	% of Total Shares on Issue
1	Ethical Partners Funds Management Pty Limited	17,156,168	5.7
2	FIL Investment Management Australia Limited	15,894,969	5.3
3	Vinva Investment Management Limited	14,091,453	4.7
4	Dimensional Fund Advisors Limited	10,868,931	3.6
5	The Vanguard Group, Inc.	8,732,862	2.9
6	Spheria Asset Management Pty Limited	7,913,875	2.6
7	Perpetual Limited	7,845,987	2.6
8	WAM Capital Limited	7,763,887	2.6
9	Vanguard Investments Australia Limited	6,345,788	2.1
10	BlackRock Investments, LLC	5,744,907	1.9
11	Argo Investments Limited	5,546,932	1.8
12	Macquarie Asset Management Holding Pty Limited	5,031,390	1.7
13	State Street Global Advisors Australia Limited	4,141,218	1.4
14	Norges Bank Investment Management	4,115,915	1.3
15	Regal Funds Management Pty Limited	3,525,403	1.1
16	Copia Investment Partners Limited	3,350,000	1.1
17	First Sentier Investors Realindex Pty Limited	3,297,614	1.1
18	AMP Capital Investors Limited	2,968,789	1.0
19	Messrs Roy A & Anthony P Medich	2,819,019	0.9
20	BlackRock Investment Management (Australia) Limited	2,803,712	0.9
	Total	**139,958,819**	**46.3**

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

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

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

Rick Cross
Director

Harper Kilpatrick
Director

Patria Mann
Independent Director

Peter Margin
Independent Director

Raelene Murphy
Independent Director

Terry O'Brien
Independent Director

Company Secretary

Brett Kelly

Executive Team

Paul van Heerwaarden
Chief Executive Officer

Peter Findlay
Chief Financial Officer

Colin Griffin
Executive General Manager Contract Manufacturing

Mark McDonald
Executive General Manager Beverage Operations

David McKinnon
Executive General Manager Human Resources

Adam McNamara
Executive General Manager Bega Foods

Stephen Rae
Executive General Manager Strategy & Planning

Hamish Reid
Executive General Manager Nutritionals & Ingredients

Antonietta Timms
Executive General Manager Operational Excellence

Darryn Wallace
Executive General Manager Bega Beverages Sales & Marketing

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 subsidiaries, joint venture and associate. Bega Cheese and its subsidiaries together are referred to in this financial report as the Bega Cheese Group (Group or consolidated entity).

Principal Registered Office

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

Share Registry

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 2021 and is referred to as FY2021

BRAND SPOTLIGHT

DAILY JUICE

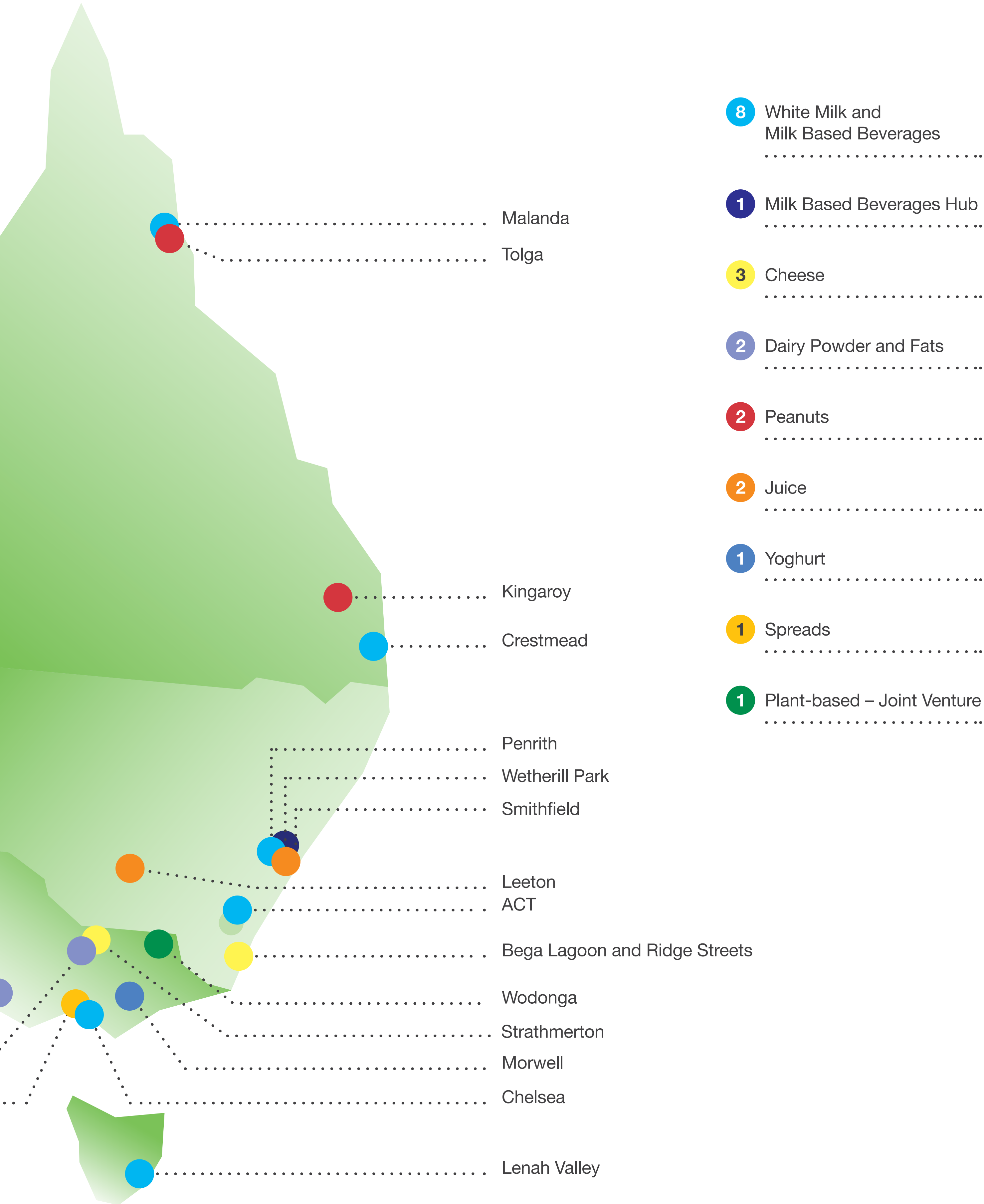
Daily Juice is a nationally distributed chilled fruit and vegetable juice brand, with an estimated retail sales of $77m[1]. Available in a wide range of flavours, Daily Juice comes in impulse (250ml, 500ml) and take home sizes (1, 2 & 3L). Daily Juice has the highest awareness amongst its competitors at 74%2 and has grown 9.7% in estimated retail sales over the past year1. See **www.dailyjuice.com.au**

1 IRi Total Business Scan (AU Grocery Unweighted + Structured Convenience), MAT to June 2021

2 Total awareness measure - Nature Brand Tracking June 2021

Manufacturing Footprint

Manufacturing Facilities


Malanda
Tolga
Kingaroy
Crestmead
Penrith
Wetherill Park
Smithfield
Leeton
ACT
Bega Lagoon and Ridge Streets
Wodonga
Strathmerton
Morwell
Chelsea
Lenah Valley
8 White Milk and Milk Based Beverages
1 Milk Based Beverages Hub
3 Cheese
2 Dairy Powder and Fats
2 Peanuts
2 Juice
1 Yoghurt
1 Spreads
1 Plant-based – Joint Venture