BEGA CHEESE LIMITED

2020 Annual Report

Bega

Contents

A special thanks to the staff, farmers and customers whose images we have used through the report to illustrate relevant facts of our business. They represent the many people that together make Bega the Great Australian Food Company it is today.


MADE WITH
100%
AUSSIE
NUTS
Bega
Simply
Nuts
WITH A
PINCH OF
SEA SALT
NATURAL
PEANUT BUTTER
CRUNCHY

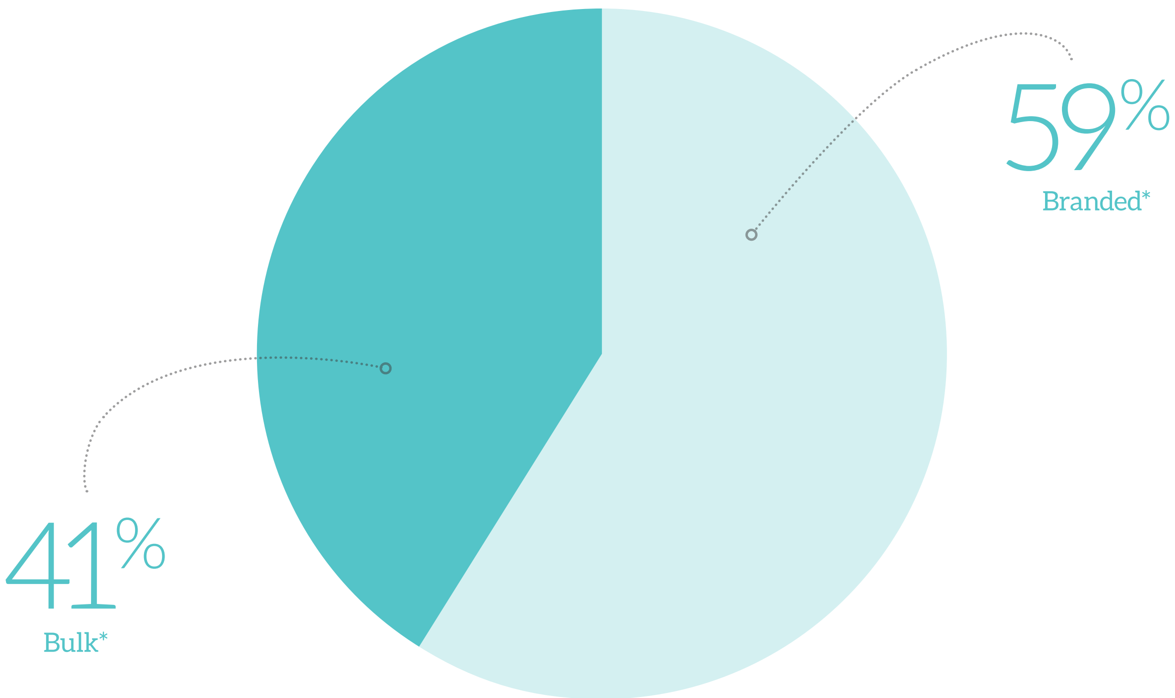
Performance Highlights

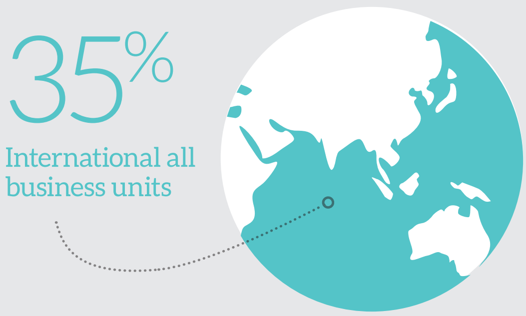
FY2020	1,493 million
FY2019	1,420 million

Revenue ($m)

Revenue has increased by $73 million, or 5%, compared to the prior year.

FY2020 Revenue





Bega International

Export sales totalling $523 million, being an increase of 15% on the prior year, comprised 35% of total sales.

* the Group has two new reporting segments:

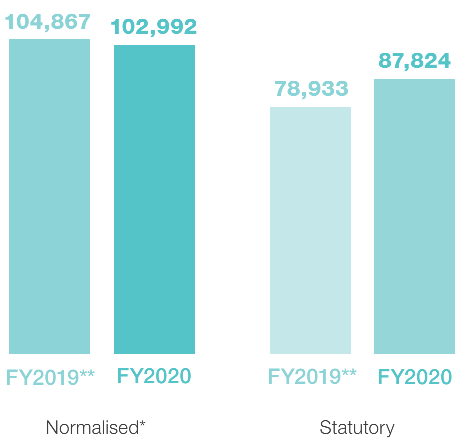
i. Branded – the manufacture of bulk ingredients into value added consumer products for internal or external brands.

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

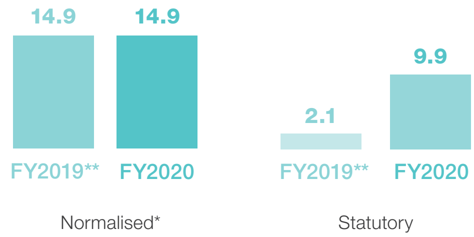
Financial results

The statutory result for each of FY2020 and FY2019 included a number of non-recurring items, which in FY2020 related primarily to legal costs and in FY2019 related primarily to business acquisitions, impairment of Coburg assets and other corporate activity. On a statutory basis for FY2020 earnings before interest, tax, depreciation and amortisation (EBITDA) was $87.8 million, profit before tax (PBT) was $31.0 million and profit after tax (PAT) was $21.3 million. On a normalised basis for FY2020 EBITDA was $103.0 million, down 2%, PBT was $46.2 million, up 3%, and PAT was $31.9 million, up 3%.

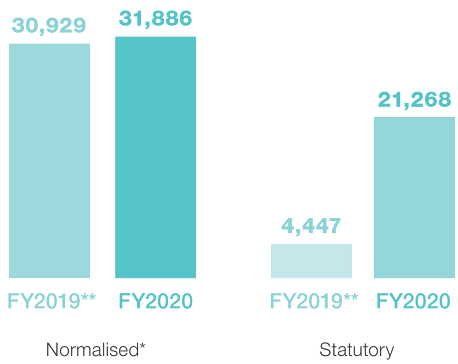
EBITDA ($'000)



Basic earnings per share (cents)



Profit after tax ($'000)



Total dividend per share (cents)

Production volume (tonnes)

Production has decreased by 2%, compared to the prior year, reflecting the impact of drought and supply competition.

FY2020 297,668

FY2019 303,252

Total dividend per share

Bega Cheese Group has declared a final dividend of 5.0 cents per share, taking the total dividend relating to FY2020 up to 10.0 cents per share. This represents a total payment of $21.4 million, being 67% of the normalised profit after tax and a decrease of $2.0 million, or 9%, on the prior year.

*Normalised results exclude the impact of significant events occurring during the year.
**Amounts have been restated, see note 32 of the financial statements for details.

Chairman's Report

In the last two decades, it has often been the case that leaders from all walks of life have talked about a particular year as being tumultuous, a year of challenge, a year of change, a year of opportunities, a year the likes of which we have never seen before. While these statements are with good reason and foundation it is my view that FY2020 has made many of the preceding 20 years look simple and peaceful by comparison. At Bega Cheese we have faced highly competitive milk procurement markets, significant drought impacting our supply base, substantial increases in input costs across the supply chain, volatility in our markets and currency, never before experienced fires in Bega and Gippsland, and this was all prior to the arrival of COVID-19 and the disruption it has brought to our markets, customers, suppliers, staff and the global community.

It is in the above context that I am proud to report on the sound and stable business performance of Bega Cheese for FY2020. While it has been a challenging year on many levels the strength of Bega Cheese's strategy, experience and culture has once again been demonstrated and continues to position us well to manage challenge and change.

It is important that the company acknowledges the misstatement in our FY2019 accounts which was discovered and corrected in our 1H FY2020 report. The misstatement was related to accounting systems changes associated with our Koroit acquisition and meant that EBITDA was overstated in the FY2019 year by $10.5 million. The company was very embarrassed by the error in our accounts and has conducted an internal and external review resulting in structural, personnel and process changes to ensure this does not happen again. Comparisons in my report will be to the corrected FY2019 EBITDA, EBIT, PBT and PAT.

I am pleased to once again report that Bega Cheese has continued to grow with total revenues in FY2020 being $1.49 billion, an increase of 5%. While revenues continue to grow, a highly competitive milk supply environment and market both in Australia and internationally meant that normalised EBITDA and PAT were relatively stable at $103.0 million and $31.9 million respectively. Importantly, the company has reduced net debt significantly with FY2020 net debt being $236.4 million a reduction of 18%.

The impact of drought and supply competition meant that overall production decreased by 2% to 298 thousand tonnes. Bega Cheese has continued to review and integrate its infrastructure to reflect changes in both our supply profile and the market. Following the closure of Coburg in FY2019 we have completed the integration of Koroit, continued to focus Tatura on high value dairy proteins and nutritionals, commenced consolidation of some of our processed cheese capacities between our Bega and Strathmerton facilities, created greater capacity flexibility at our Port Melbourne facilities and progressed toll manufacturing arrangements with other dairy industry manufacturers.

The ongoing refinement of our manufacturing infrastructure reflects both changes in our supply regions and the market and is a great demonstration of the agility and experience of the business. The strategy of having diversified supply regions producing high value dairy ingredients for both the retail and dairy nutritionals markets continues to be a priority for the business. An important initiative this year was the construction and commissioning of our new lactoferrin infrastructure at Koroit. I am pleased to report that despite the challenges of COVID-19 the plant was commissioned on time and the company will receive the full benefit of the new capacity in FY2021.

It has been an important year for our Bega Foods business. Sales in our peanut butter range continue to grow, particularly as a result of the successful launch of our Simply Nuts products, additionally we continue to develop our Farmer's Table cream cheese and butter branded business, and the promotion of Vegemite has seen a return to growth, and the iconic status of this much loved brand reinforced.

Bega Foods has successfully expanded in the spread's category with the launch of B honey, which combined with our existing range and new product development gives us significant presence in Australian retail and food service channels in dairy and spreads. Bega Foods has continued to grow our international retail and food service business prior to the onset of COVID-19 where sales have since stabilised.

It is noteworthy that the Bega Foods business was able to quickly respond to changed market conditions as a result of COVID-19, the business managed a collapse in both the Australian and international food service markets and a short term surge in demand in retail. The capability and flexibility of the team to quickly adjust and change in both the dairy and food business again confirms value of the diversity of the business and customers we serve in Australia and internationally.

We were pleased to receive a favourable decision in our legal dispute with Kraft from the Full Court of the Federal Court of Australia in April 2020. The Full Court judgement confirmed Bega Cheese's ownership of the trade dress currently associated with its peanut butter product. Kraft has now sought leave to appeal to the High Court. The High Court has set a date in mid-November 2020 to hear the application for leave to appeal to the High Court. The dispute with Fonterra regarding the Bega brand continues. The trial in the Supreme Court of Victoria completed in July 2020 and we are now awaiting judgment.

Bega Cheese has grown substantially over the past decade making a number of acquisitions and managing significant change. As we have previously reported to the market it was appropriate that this year we conduct an organisational and process review to ensure that our business has the most effective and competitive structure available to us. This review has been completed and is being implemented, it does unfortunately mean that there will be some redundancies within the business, we are always conscious of the dedication and commitment our staff give and we will of course offer support to those whose jobs are not required. It is always important to continue to review the competitiveness of the business and ensure our structure and strategy are aligned and position us to be the company of choice for suppliers, staff, customers and shareholders alike.

CEO Paul van Heerwaarden will provide more detail on the performance of the business and also expand on our actions and the impact of COVID-19. Paul has led the team wonderfully through a challenging year and his focus on the safety of all involved with Bega Cheese while stewarding the business through never before seen circumstances has been admirable. We continue to endeavour to be in a position to be responsive to whatever change in circumstances COVID-19 might bring and have put in place a dedicated COVID-19 team which includes Paul, myself and staff from across the business to ensure decisions and actions happen quickly and are made with all the available knowledge and information. Paul will comment further but I do want to acknowledge the efforts of everyone at Bega Cheese and across our supply chain for their dedication, flexibility, understanding and resilience as we continue to manage the impact of COVID-19.

It has been a year like no other and it would be remiss of me to not thank the Board and executive team for their efforts for the company and support of me during my period of leave to be treated for cancer. The cancer and chemotherapy treatments were a significant challenge and knowing the company was in good hands with excellent knowledge and capability was and is important. I particularly want to acknowledge Max Roberts for stepping in as Chairman, Max was preparing for retirement prior to my illness but agreed to stay on and chair the company until my return. Max has provided outstanding service to the company for over 30 years as a Director and has made a significant contribution to the company and the dairy industry. Max's vision and positive approach to all that we were endeavouring to achieve at Bega Cheese will long be remembered and appreciated.

It was in sad circumstances that Jeff Odgers elected to resign his position as a director in June following a family tragedy. Jeff had been on the Board of Bega Cheese since its listing in 2011. Jeff's knowledge of the dairy industry, global market dynamics and key agri-political issues such as water resource allocation and management were second to none. Jeff has made a wonderful contribution to Bega Cheese and has always been ambitious in his views on what the company could achieve.

I thank both Jeff and Max for their friendship and service to Bega Cheese.

As with all change it was important to recognise both the challenge and opportunity in replacing a supplier director. Given the acquisition of Koroit and the significance of Bega Cheese's supply footprint in Western Victoria we were keen to have a supplier director from that region. I am pleased to report the company identified a number of well credentialed candidates and has finalised our search and expect to appoint our new supplier director in September. We are also finalising our search for the vacant independent director position and expect to make an announcement shortly.

The FY2020 year has indeed been a year like no other, I am pleased to present an annual report that reflects the stability of our business and the strength of our strategy. The company continues to be well positioned for growth and has the knowledge, experience and agility to respond to the challenge of a changing business and community environment as a result of COVID-19. I would like to express my appreciation and thanks to the Board, Paul, his executive team, the staff and all associated with the company for their work and contribution to the success of Bega Cheese. I would also like thank suppliers, customers and shareholders for their loyalty and support.

Barry Irvin
Executive Chairman
27 August 2020

Chief Executive Officer's Review

Financial performance, financial strength and investing for the future

Bega Cheese Group generated record sales revenue of $1.49 billion in FY2020, with sound growth across most of our key market channels. The Group delivered a normalised EBITDA of $103.0 million, which is towards the upper end of guidance provided earlier this financial year and despite circumstances this year unfolding differently than anticipated. Our financial performance has benefited from diversified earnings streams gained from the significant corporate activity of recent years.

In FY2020 we maintained a focus on strengthening our balance sheet and improving cash management, resulting in a significant reduction in net debt from $303.4 million at the end of 1H FY2020 to $236.4 million as at 30 June. We remained vigilant in managing working capital, with inventory and trade receivables down on the previous year.

We continued to invest in our future during this period of uncertainty. Commissioning of the new lactoferrin plant at Koroit progressed, we deployed our new management information system, and undertook an extensive review of our organisational design and processes to improve efficiency and streamline operating costs. Ongoing product innovation saw the launch of new Vegemite products and additional products in our Simply Nuts natural peanut butter range. Towards the end of financial year we were pleased to launch into the honey segment with our new B honey range.

The two legal cases with Fonterra and Kraft Heinz progressed during FY2020 and we await outcomes for both. In the proceedings with Kraft Heinz, we were successful in confirming Bega Cheese ownership of the peanut butter trade dress in the Full Court of the Federal Court of Australia. The High Court of Australia will hear Kraft Heinz's application for special leave to appeal in November 2020. Final submissions have been filed in the Supreme Court of Victoria trial in the matter brought against Bega Cheese by Fonterra regarding our use of the Bega trade mark in Australia and our cross claim on Fonterra regarding performance of their obligations under the Bega Trade Mark Licence Agreement.

Unprecedented rural, climatic and pandemic environment

I am not alone in reporting that FY2020 presented a succession of unprecedented challenges, all of which were described as 'once in a century' events. The first event was a clear signal that climate change will continue to have an ever increasing impact. Rural communities entered FY2020 having already endured severe and prolonged drought. Our resilient farmer suppliers were tested to the limit as the drought extended throughout the first half of FY2020. Rivers and natural water systems dried up, dams and other irrigation reserves were extinguished, and stock and domestic water supply came under serious threat. Conditions could not have been more demanding for our farmers and their families and we provided as much drought support as we could to ease some of their burden.

The second event was extensive bushfires across the country, which became uncontrollable due to dry conditions and intensified in south east NSW, Victoria and ACT on New Year's Eve 2019. Fires spread rapidly and delivered conditions never seen before. Lives were lost, landscapes destroyed, rural and native animals perished, and assets and infrastructure burned to the ground. Generations of work and investment by families was wiped out. Restoration and recovery will involve a long term effort. Bega Cheese Group employees made a significant contribution by supporting farmers where possible with milk collections, generators and emergency feed. Our people kept operations running, left their families and homes to protect our manufacturing facilities, and in some cases put their lives at risk to save others. Eventually the bushfires were declared contained due to widespread arrival of rain.

The third event is COVID-19, yet another challenge experienced on an unparalleled scale. We remain concerned for those in local communities, across our great country and throughout the world. The Group is committed to the safety of our staff, staying open for business and providing our range of food products to our customers. We have modified our ways of working to minimise the risk of COVID-19, ensure the wellbeing of our people, and maintain food supply to consumers.

Growth of key markets and customers

Revenue of $1.49 billion for FY2020 was an increase of 5% compared to the prior year, primarily due to the growth in our Branded consumer and food service business in both domestic and international markets.

The domestic retail grocery market value grew by 10.5% in FY2020. The spreads category value growth was slightly lower at 9.8%, with a volume growth of 5.8%. This was positive in view of the overall decline in the spreads category during the prior year. The first eight months of FY2020 saw the spreads category grow at 2.8% value, with Bega outperforming at 4.1% growth. This accelerated over the last four months due to COVID-19 causing changes in purchasing decisions.

The nut spreads segment had a strong year. Our core range of peanut butter and Bega Simply Nuts performed ahead of category. Yeast spreads also performed well, driven by the ongoing growth of Vegemite. Our association with Ash Barty during the Australian summer of tennis and the Australian Open continued this year. While Ash just missed out on making the final we were very proud to see her name on the supermarket shelves through our temporary rebranding of Vegemite as Bartymite, acknowledging the coming together of two great Australians. Following the successful launch of Gluten Free Vegemite last year, we expanded our iconic Vegemite brand with the launch of 40% Less Salt Vegemite. Online Vegemite merchandise sales continue to grow, as does the franchising of the Vegemite trademark.

In May we extended our spreads offering to include a honey range with the launch of B honey, made from 100% pure Australian honey. Honey remains an attractive segment for Bega, aligned with our focus on provenance and knowledge of the spreads category. B honey was close to exceeding its launch year share target within its first eight weeks. Farmer's Table launched into the Coles butter category in July 2020, with strong shelf position and encouraging consumer uptake. The cheese category experienced strong growth in FY2020, primarily in the natural cheese and entertaining segments – mainly due to increased commodities pricing leading to increased shelf prices. Volumes increased, with recent uplift due to the impact of COVID-19 on consumer behaviour.

Our export branded consumer and food service business continued to see strong growth, although COVID-19 dampened this across our markets from late January 2020. Demand for our brands in the food service channel was disrupted, however consumer demand switched to our brands in retail channels. In the Asian regions, the fundamentals of a growing middle class and westernisation of food preferences remain and these markets continue to play a strategically important role in our overall growth objective.

The nutritional category within the Bulk segment performed in line with expectations for the first half of the year, with strong momentum from our range of goat milk formulas and products destined for South East Asia. In the second half, the category was impacted by COVID-19 - particularly for customers supplying products into China. Many reported an increase in sales in Q3 caused by pantry loading, followed by a sharp decrease in demand in Q4. The Q4 decline was caused by the reduced presence of Daigou shoppers in Australia and an increase in the cost of airfreight due to fewer international flights. Lactoferrin pricing remained firm in the first half of the year, however pricing came under pressure later in the year as a result of the change in channel dynamics and reducing global demand. Pricing remains above historical averages and our customer mix, including the end users of products, is more diverse than several years ago.

Sustainability in our supply chain

Our comprehensive corporate social responsibility strategy, aligned to the United Nations' Sustainable Development Goals, helps ensure our business is constantly improving and meeting customer, shareholder and community expectations. This year our ambitious three-year energy reduction program continued. In other progress, we introduced a new Ethical Sourcing Policy, committed to the Responsible Children's Marketing Initiative, became an early adopter of the Australasian Recycling Label, and became an associate member of the Roundtable on Responsible Palm Oil. Our sustainability focus remains on improving food nutrition, supporting an increase in the diversity of our people, reducing greenhouse gas emissions, improving water conservation and reducing packaging waste. Further details on these initiatives, plus our overall sustainability performance are provided in our FY2020 Sustainability Report.

Last year we commenced piloting several Industry 4.0 initiatives with Swinburne University with funding support from the Federal Government. Leveraging these new technologies includes utilising the IoT (Internet of Things) to optimise efficiency with aspects of our business, including inbound milk logistics and automated machine learning on yeast processing.

As announced at half year, Bega Cheese engaged Boston Consulting Group to conduct an organisational and process benchmarking review. This important work to improve cost efficiencies in our supply chain is an essential part of transforming into a larger and more diverse company, as is our move to a new centralised ERP system.

With our ongoing review our manufacturing and supply chain footprint, a number of strategic steps were taken prior to FY2020 that transformed our dairy processing network and enabled us to support our growth and respond to various milk supply and competitive challenges. This included the acquisition of the Koroit facility and closure of the Coburg facility, followed by third-party toll manufacturing agreements. Further opportunities to strengthen our network were implemented during FY2020 including the commissioning of the lactoferrin plant in Koroit, plus other capital projects and commercial initiatives. The supply of lactoferrin from Koroit commenced in the fourth quarter and we expect to realise the full year benefit from this significant project in FY2021.

In July 2020 we announced the consolidation of our individually wrapped processed cheese capacity to Strathmerton, with 63 roles to become redundant at Bega. The processed cheese market in Australia is declining as consumers switch to natural cheese products, particularly natural cheddar slices. While we still see opportunities for growth in processed cheese products in international markets, domestically we typically compete with low cost processors. To maintain cost competitiveness we will continue to rationalise our supply chain and manufacturing footprint.

Challenging milk supply

Our FY2020 milk intake of 955 million litres was 9.6% lower than the prior year due to drought and strong competition for milk, particularly in the first half.

We experienced competitive and seasonal pressure on milk supply across all regions, with drought conditions increasing the cost of farm inputs. Suppliers in irrigation regions were required to manage tight water allocations and high costs of temporary water. Further pressure was placed on our supply base through domestic market processors offering premium milk prices to secure Victorian milk supply and offset lower milk supply from New South Wales and Queensland regions.

While growth of milk supply from Western Victoria continued, supply from other regions declined. This was due to factors including increased competition in Gippsland, drought and bushfires in the Bega region, and lower milk supply from an irrigation dependent northern Victoria region. In response to these challenges we provided record milk payments throughout FY2020 which included base milk price increases, Bega Supply Premiums, ongoing irrigation rebates and the introduction of new milk growth incentives. Our Better Farms program also continued to provide help to suppliers improve their farm businesses.

We introduced several milk price and contract initiatives this year, including the implementation of the 9/3 milk pricing system which aims to provide stronger cash flow and price relativity, particularly for pasture based dairy farms. The system enables improved sustainability of farm profitability and supports on farm decision making.

The Dairy Industry Code of Conduct came into effect in January 2020. This regulates the process for negotiating contractual arrangements, including the provision of minimum base milk prices between dairy farmers and dairy processors.

COVID-19 and our response

The COVID-19 pandemic has changed our lives and the way our business operates. During this challenging time our focus has been on the safety of our people and our communities. The way our people rallied together to support each other, our business and our customers has been inspiring and demonstrates our core values.

Since March over 500 of our employees have worked remotely, yet we maintain a workforce of over 1,500 employees at manufacturing sites. Our site leadership and site-based employees are essential in ensuring the ongoing production and supply of our quality products to customers.

At the time of writing we are in the midst of a Victorian State of Disaster, contending with Stage 4 restrictions in Melbourne and Stage 3 in regional Victoria. Our business is now operating in a way we have never operated before. Remote working is only a small part of these changes. In line with our crisis management policy, a COVID-19 Executive Crisis Team was formed in February and has met regularly to monitor the situation and adapt our response to the changing circumstances of the pandemic. We adopted new forms of communication to reach all employees quickly and effectively. We developed a comprehensive suite of policies and procedures to support and guide managers and employees, which are regularly reviewed and updated in line with the latest government advice. To protect our core manufacturing employees, we implemented new procedures including daily temperature checks and a Workplace Face Mask Policy. Key bodies including Dairy Australia and the Australian Food and Grocery Council continue provide important guidance at an industry level.

The pandemic is expected to impact our customers and our supply chain well into FY2021 or longer. As business continuity plans are regularly reviewed and updated, our focus remains on ensuring the health and wellbeing of our employees and providing them with a range of supports.

Developing our people and culture

Our values support our vision to become "The Great Australian Food Company" and play an important role in employee development programs. During FY2020 we revised our employee performance assessment process, giving equal weight to what we achieve and how we achieve it. Our Bega Aspire Leadership Development Program helps develop capability in our next generation of leaders, giving participants the opportunity to work on projects that have a lasting impact on the business. We continued the Bega Graduate Program this year. To further the development of graduates we introduced "#HeartLEADER", a talent development program for those in the early stages of their careers.

In recent years we have seen a continued improvement in our safety performance and safety culture across the business. Concerningly, safety performance deteriorated during FY2020 with an increase in our total reportable injury frequency rate to 10.5, well above our rate in FY2019 and above our FY2020 target. While we still saw improvement in a number of lead safety indicators, our overall performance is well below our expectations. Last month we engaged DuPont Sustainable Solutions, a leading global consultancy for workplace safety, who will work closely with our site based teams to assess our safety culture and determine the necessary development plans.

In the past year we have had 10 enterprise bargaining agreements to negotiate across our sites. These agreements are obviously very important for both our employee groups and the company to ensure our collective interests are aligned and considered. I would like to acknowledge the significant contributions made by all our employees and union representatives involved. Our next agreement is due for negotiation in FY2022.

The Bega Corporate event, normally held in March each year, was unfortunately postponed due to international and domestic travel restrictions due to COVID-19. The TAT200 charity bike ride was held in November 2019 attracting 325 participants and raising a total of $90,000. We were very excited to welcome Bubs as the new Diamond Sponsor and their contribution extended to strong representation at the bike ride and social events. Funds raised were directed towards local community support organisations and other initiatives, including university scholarships for members of local dairy farming families.

We are proud of our ongoing partnership with Foodbank which allows us to support front line charities, local communities, and schools across the country. More than 40% of all food and groceries distributed by Foodbank nationally is contributed to regional and rural communities. In FY2020, we donated over 57,000 kilograms of products, equating to more than 103,000 meals for Australians experiencing hardship.

A positive outlook during ongoing uncertainty

The Group is well positioned as we enter FY2021, with increased profit contributions from the recently commissioned lactoferrin facility at Koroit and cost savings flowing from the organisation and process review. Further reductions in working capital and net debt will strengthen the balance sheet. While we cautiously consider potential acquisition opportunities, our two main areas of focus are organic growth across our portfolio of categories and markets, and improved cost competitiveness.

Product innovation in the spreads category will build on existing products including Vegemite and Simply Nuts natural peanut butter and the recently launched B honey range. The dairy category continues to provide opportunities, including processed cheese products into export consumer and foodservice markets. Ongoing development and consolidation of our supply chain will further improve our cost competitiveness. This includes maintaining a focus on efficiencies in our manufacturing and logistics footprint, plus the second phase of the organisation and process review towards the end of H1 FY2021.

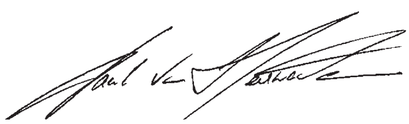
Our milk supply for FY2021 is forecast to be lower than FY2020 due to the cessation of the two year milk supply guarantee arrangement as part of the Koroit acquisition in 2018. We expect milk supply to increase throughout the year through milk production growth from favourable seasonal conditions. The toll arrangements we have entered into with other processors will increase the utilisation of our dairy processing network. Opening FY2021 milk prices in Australia were lower than FY2020 due to the COVID-19 pandemic decreasing demand, as well as increases in global milk supply. These market conditions are expected to remain in the near term, providing a stable outlook to current FY2021 milk prices. While commodity prices have somewhat stabilised and global demand remains remarkably resilient, we continue to monitor the supply situation in the northern hemisphere, particularly in Northern Europe and the United States, for increases that may put commodity prices under further pressure.

For the nutritional powders category, we expect Chinese buyers will shift over time to alternative channels such as cross-border ecommerce, providing some normality from Q2 FY2021. However, we understand that some share could be lost to domestic Chinese brands during this period. A normalised trading relationship with China is essential to ensuring our customers retain access to this important market for infant formula and dairy products. Despite the challenges in the nutritional powders category, which utilises lactoferrin as an ingredient, the outlook for our lactoferrin business remains strong with the majority of our lactoferrin pricing linked to fixed long term contacts with the recently commissioned plant at Koroit.

There is no doubt that the impact from the COVID-19 pandemic will be evident well into the future. The main implications for our business in the near term include the strength of domestic demand for our portfolio of consumer products, and the return to normal levels of demand for food service and nutritional products in key export markets.

Importantly, throughout FY2020, we demonstrated our ability to quickly respond to challenges and opportunities as they emerged. This included our supply chain responsiveness to bushfires in January, ramping up production of consumer products through March due to increased domestic demand, managing and redirecting production destined for export markets, and quickly implementing new policies and procedures to protect the safety of our people and products as the implications of the COVID-19 pandemic unfolded. Despite the various domestic and global challenges we are faced with, I remain optimistic that the resilience of our category portfolio and market mix, along with the competitiveness and responsiveness of our supply chain, positions us well to take on the opportunities and challenges we will face in FY2021 and beyond.

Finally, I would like to acknowledge the support and leadership of the Board and Max's Chairmanship during Barry's absence. I was pleased to welcome Barry back following his recovery and valued his leadership and support, particularly in our responses to the COVID-19 pandemic and the mandatory dairy code. Against the backdrop of factors outside our control, we can reflect very positively on FY2020. I sincerely thank the executive team, our employees, farmer suppliers and other suppliers, customers and the consumers of our products. Your ongoing commitment and contribution remains central to our progress towards becoming The Great Australian Food Company.



Paul van Heerwaarden
Chief Executive Officer
27 August 2020

Your Directors present the Annual Financial Report of the Bega Cheese Group for the year ended 30 June 2020

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 Directorships:
Chairman – Giant Steps (Sydney); Director of Tatura Milk Industries Pty Ltd; Giant Steps Melbourne Limited; and Giant Steps Australia Ltd.
Former Directorships in the last 3 years: Nil

Raelene Murphy
B BUS, FCA, GAICD

Independent Director since June 2015

Raelene Murphy has over 35 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 Committee

Other Current Directorships:
Non-executive Director of Clean Seas Seafood Limited; Non-executive Director of Integral Diagnostics Limited; Non-executive Director of Altium Limited; Non-executive Director of Ross House Investments Pty Limited (Stillwell Motor Group).

Former Directorships in the last 3 years:
Non-executive Director of Service Stream Limited and Non-executive Director of Tassal Group Limited.

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; Chairman of Clean Seas Seafood Limited; Director of Foodbank Australia. Member of the East Asia Review Commission (Advisory Board) of Societe d'Oxygene et d'Acetylene d'Extreme-Orient, a member of the Air Liquide Group.
Former Directorships in the last 3 years: Nil

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 16 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; Non-executive Director of Ridley Corporation Limited.
Former Directorships in the last 3 years:
Non-executive Director of Allianz Australia Limited.

Richard Parbery
FCPA, MAICD

Director since September 1988

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

Richard also controls a large family farm on the outskirts of Bega, New South Wales.

Other BGA Committees: Member of Audit & Risk Committee
Other Directorships: Nil
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 2020 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

	2020 $'000	2019 $'000
Interim ordinary dividend for the year ended 30 June 2020 of 5.0 cents	10,713	-
Final ordinary dividend for the year ended 30 June 2019 of 5.5 cents	11,755	-
Interim ordinary dividend for the year ended 30 June 2019 of 5.5 cents	-	11,722
Final ordinary dividend for the year ended 30 June 2018 of 5.5 cents	-	10,178

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $10.7 million (5.0 cents per fully paid share) to be paid on 7 October 2020.

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

Company secretaries

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 35 years' experience. He has also been a graduate member of the Australian Institute of Company Directors since 2006. Brett Kelly completed the Certificate in Governance and Risk Management with the Governance Institute of Australia in December 2011.

Colin Griffin CA was appointed to the position of Company Secretary in 1993. Colin Griffin holds a Bachelor of Arts in Accounting and is a Chartered Accountant with 37 years' experience. Colin Griffin's primary responsibility was as Chief Financial Officer (CFO) until 11 November 2019, when he changed roles to Executive General Manager Contract Manufacturing.

Meetings of Directors and Board Committees

The following table sets out the number of Board, Audit & Risk Committee, Nomination, Remuneration and Human Resources Committee, Milk Services Committee and Peanut Growing and Breeding Committee meetings held during the year ended 30 June 2020 and the number of meetings attended by each eligible Director and other members:

Meetings of the Audit & Risk Committee

	Held and Eligible	Attended
Raelene Murphy	9	9
Patria Mann [2]	6	6
Richard Parbery	9	9
Terry O'Brien	9	8

Meetings of the Nomination, Remuneration and Human Resources Committee

	Held and Eligible	Attended
Terry O'Brien	5	5
Richard Cross	5	5
Raelene Murphy [3]	1	1
Max Roberts	4	4

Meetings of the Milk Services Committee

	Held and Eligible	Attended
Jeff Odgers [7]	4	4
Max Roberts	2	1
Rick Cross [4]	0	0

Meetings of the Peanut Growing and Breeding Committee

	Held and Eligible	Attended
Max Roberts	6	6
Brett Kelly	6	4
Peter Watt	6	6
Stephen Rae	6	4

Meetings of the Board of Directors

	Held and Eligible	Attended
Barry Irvin [5]	12	12
Rick Cross	17	17
Patria Mann [1]	14	14
Raelene Murphy	21	20
Jeff Odgers [7]	17	15
Richard Parbery	17	17
Terry O'Brien	17	17
Max Roberts [6]	9	9

1. Patria Mann commenced as Director on 9 September 2019.
2. Patria Mann was appointed as a member of the Audit & Risk Committee at its meeting held 18 November 2019.
3. Raelene Murphy was appointed as a member of the Nomination, Remuneration and Human Resources Committee on 29 January 2020.
4. Rick Cross was appointed as a member and Chair of the Milk Services Committee by Special Resolution on 17 July 2020.
5. Barry Irvin was granted a leave of absence at the Bega Board meeting held 20 May 2019, with Max Roberts being appointed as Chairman of the Board during Barry's absence. Barry returned to service from the Board meeting held 29 January 2020,
6. Max Roberts ceased to be alternate Director for Barry Irvin on 29 January 2020.
7. Jeff Odgers resigned as Director on 30 June 2020.

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

Environmental sustainability

Overview

We are committed to ensuring that our business continues to develop sustainably by reducing our impact on the natural environment with a specific focus on environmental compliance, responsible and ethical sourcing, product stewardship, resource efficiency, climate change, and ensuring a positive social impact.

This commitment is 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 associated action plans with the United Nations Sustainability Goals. Our CSR framework, priorities to 2030 and progress to date will be shared in our FY2020 Sustainability Report.

Environmental regulations and management

Legislative framework

Our business is subject to Federal and State Environmental Acts and Regulations. These include reporting requirements under the National Greenhouse and Energy Reporting Act 2007 (Cth), the Protection of the Environment Operations Act 1997 (NSW), the Environment Protection Act 1970 (Vic), the Environmental Protection Act 1994 (Qld) and the Clean Energy Act 2011 (Cth).

The Group's manufacturing sites are licenced 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. Two tradewaste notices were received from South East Water during FY2020. We are pleased to report there were no infringements or notices from the Environment Protection Authority.

During FY2020 the Group complied with all statutory and voluntary reporting requirements and continues to monitor and report energy intensity and carbon footprint.

Major environmental initiatives

In FY2020, activities to reduce environmental impacts and ensure sustainability included:

- continuing the rollout of our Energy Roadmap in FY2020, completing 80% of sub meter installations and approving $822,000 in energy efficiency projects expected to reduce group energy consumption by around 2%, saving 44,000 GJ
- adopting a new Ethical Sourcing Policy in January 2020, which sets minimum standards for suppliers on a range of human rights issues such as child labour and non-discrimination, and environmental impacts such as greenhouse gas emissions, water, waste and packaging
- becoming associate members* of the Roundtable on Responsible Palm Oil (RSPO), a not-for-profit that develops and implements global standards for sustainable palm oil, plus commencing RSPO Supply Chain Certification for relevant manufacturing sites with the first of these certified in July 2020
- becoming an early adopter of the Australasian Recycling Label which clearly shows customers how to correctly recycle each component of packaging
- greenhouse gas emissions maintained at FY2019 levels through the purchase of Australian Carbon Credit Units generated through storage in soils on dairy farms
- re-using 39% of water in our manufacturing operations for irrigation on farms and commencing a water efficiency and risk management project.

Sustainability strategy

On farm dairy sustainability

Farm sustainability remains a major challenge for our milk suppliers in FY2020 with drought conditions and significant bushfires across Australia directly impacting our dairy farm families. Irrigation water prices and feed prices continue to place significant strain on these suppliers.

A new 9/3 milk payment system was introduced this year to better support efficient milk production. The plan was welcomed by dairy farmers and the United Dairyfarmers of Victoria (UDV) as a simpler payment approach to better support the Australian Dairy Industry and Bega Cheese is an early adopter. The new payment system provides a flat price for nine months of the year outside of spring and another lower price for the three months of spring. Bega Cheese provided a differential of $0.50 per kilogram of Milk Solids between the spring months and the remainder of the year. This simple payment system increases early season cash flow to dairy farmers and encourages them to produce milk at a time that best suits their farm business. Uptake of the new milk payment system is around 68% of our dairy farmer suppliers in northern Victoria, 73% in Gippsland and 38% in the western districts of Victoria.

Our Bega Better Farms program, introduced in late 2018, continues to help dairy farmers develop and improve the long-term resource sustainability and efficiency of their businesses. Grants were made available for information and service support, development and training and on-farm capital works. Our Field Officers assessed applications against the expectations of the farm report checklist, the risk of non-compliance and opportunities for improvement. The program was temporarily suspended in the previous financial year due to funds being redirected to drought support initiatives, and recommenced in FY2020.

* Associate members purchase less than 500 metric tonnes of oil palm products per year

Remuneration report (audited)

Introduction

This report sets out the remuneration of the Executive Chairman, Non-executive Directors, Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) being the key management personnel (KMP) of the Group, the executives accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2020.

Key Management Personnel (KMP)

Details of Directors are set out in the Directors' Report on pages 12 to 13.

The CEO is appointed by the Board on the recommendation from the Nomination, Remuneration and Human Resources Committee (NRHRC). The executive positions comprising KMP are determined by the NRHRC in consultation with the Executive Chairman and the CEO. The KMP are the Executive Chairman, the CEO and the CFO. On November 11 2019 a new CFO was appointed by the CEO and the previous incumbent was appointed to another executive position.

Name	Position Held	Entity
Paul van Heerwaarden	Chief Executive Officer	Group
	Executive Director	Tatura Milk
Colin Griffin	Chief Financial Officer to 10/11/19	Group
	Executive Director	Tatura Milk
	Non-executive director	CCFA
Peter Findlay	Chief Financial Officer - from 11/11/19	Group

Remuneration governance

The NRHRC operates under a formal charter to assist the Board in relation to its responsibilities in identifying, attracting and remunerating Directors, the Executive Chairman, the CEO and the CFO being the KMP of the Group.

The NRHRC provides guidance to the Executive Chairman and CEO in implementing decisions of the Board in relation to remuneration and strategic human resource planning.

The NRHRC has two key roles:

1. to assess and make recommendations to the Board on any changes to the composition of the Board with a view to ensuring that it can operate effectively and efficiently and adequately discharge its responsibilities and duties
2. to advise and assist 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 FY2020 Corporate Governance Statement published on the Bega Cheese Limited website.

www.begacheese.com.au/investors/corporate-governance

Remuneration guidelines

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

In setting the remuneration of Executive KMP, inclusive of base remuneration, Short-Term Incentive (STI) and the Long-Term Incentive (LTI) at-risk payment for the Executive Chairman, CEO and CFO, the Board takes recommendations from the NRHRC. In formulating its recommendations, the NRHRC considers a range of factors including Group financial performance and the remuneration market data for KMP operating in similar publicly listed organisations and industry sectors. The level of performance and contribution of the individual KMP is also a material factor in determining the total remuneration for each KMP.

Each KMP has a significant amount of their remuneration directly related to budgeted profit, free cash flow, safety and personal business objective targets clearly linked to the business strategy. The achievement of performance criteria resulting in remuneration at risk (RAR) payments for KMP, have a direct bearing on the earnings of the Group and its potential to reward shareholders.

In reviewing KMP remuneration in FY2020, the Executive General Manager Human Resources sourced current remuneration market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector. This information was considered by the NRHRC to determine base salary adjustments for the Executive Chairman for his executive duties, the CEO and the former CFO. The approved base salary adjustments of 2.5% were implemented with effect from 1 September 2019.

The external information received in support of the FY2019 KMP remuneration review was also referenced for the FY2020 review. This was then updated with details of general market remuneration movements during FY2018 and FY2019 from Aon Hewitt through their Major Companies Executive data base, obtained for a fee of $5,445. The Board confirmed that the remuneration recommendations were made free of undue influence by the KMP to whom the recommendations relate.

Directors' remuneration

Directors' remuneration is set by the Board within the maximum aggregate amount of $1,200,000 per annum approved by shareholders at the 2017 Annual General Meeting.

In order to maintain independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Group performance. In setting Directors' fees, the Board takes into consideration the Group's existing remuneration policies, fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate calibre.

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool approved by shareholders. These fees are set at levels which reflect the time commitments and responsibilities of their roles. Non-executive Directors are also entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred while engaged on the business of the Group. In reviewing the Board fees for FY2020, the Executive Manager Human Resources sourced current Board fee market data for comparable organisations based on revenue, market capitalisation, employee headcount and the industry sector.

In April 2018 Ernst and Young provided an independent review of external data relating to Board fees (Ernst and Young Board Report) and the fee charged was disclosed in the FY2018 Remuneration Report. Ernst and Young was provided with a brief from the Chairman of the NRHRC to arrange an independent market review against practices of peer companies. Peer companies were independently selected by Ernst and Young. The Ernst and Young Board Report provided guidance to the NRHRC that Non-Executive Director Board fees were beneath market practice. There was no change recommended to the Chairman's allowance or Board Committee fees.

In reviewing Board fees in FY2020, based on the April 2018 Ernst and Young Board Report guidance, and updated market remuneration movements during FY2018 and FY2019 Board Director fees were increased by 2.5% per Director inclusive of superannuation with effect from 1 November 2019, with no change to committee fees. The Chair of Audit and Risk fee increased to $24,000 per annum.

During the year there were changes to the composition of the Board.

Barry Irvin the Chairman of the Board took a period of leave for health reasons from 24 May 2019 until 29 January 2020, Max Roberts did not seek re-election at the 2019 Annual General Meeting, whilst ceasing to be a Director in his own right, Mr Roberts remained on the Board in his capacity as the Alternate Director for Barry Irvin whilst he was on leave of absence. Mr Roberts also acted as the Chairman of the Board during this time to 29 January 2020. Patria Mann was appointed to the Board on 10 September 2019. Jeff Odgers resigned from the Board effective 30 June 2020.

There were no changes to the Chairs of the Board Committees, being the Audit & Risk Committee, the NRHRC and the Milk Services Committee.

The Peanut Growing and Breeding Committee continued to be Chaired by Max Roberts during FY2020, with three Bega senior employees as committee members. Bega employee committee members do not receive any committee fees.

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

	Annual amount including super		
	Rate from 1/7/19 to 31/10/19	Rate as from 1/11/2019	Rate as from 29/1/2020
Fees and allowances by role	$	$	$
Chairman of the Board	184,500	184,500	184,500
Director fees	90,000	92,250	92,250
Chair of Audit & Risk Committee	20,000	24,000	24,000
Audit & Risk Committee member allowance	10,000	10,000	10,000
Chair of NRHRC	17,500	17,500	17,500
NRHRC member allowance	8,750	8,750	8,750
Chair of Milk Services Committee	10,000	10,000	10,000
Milk Services Committee member allowance	5,000	5,000	5,000
Chairman of PCA Board	0	0	65,500

Remuneration of the Executive Chairman

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

In FY2020, the Board reviewed the remuneration of the Executive Chairman for his executive duties and this was adjusted by 2.5% from 1 September 2019, in conjunction with a recommendation from the NRHRC. In making its recommendation, the NRHRC took account the benchmarking and related information referred to in the above Remuneration Guidelines.

The Executive Chairman continued to receive the Chairman's allowance whilst on approved leave of absence given his service and significant contribution to the Company as approved by the Board. The Alternate Chairman Max Roberts received the Chairman's allowance during the Executive Chairman's leave of absence.

Executive duties

The remuneration of the Executive Chairman for executive duties in FY2020 was set in accordance with the following principles:

- a base salary of $425,150 per annum, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period, which was adjusted from 1 September 2019
- a short-term incentive up to $212,575 per annum, that was subject to achievement of agreed performance outcomes, as approved by the NRHRC in August 2019
- a long-term incentive up to $212,575 per annum, that is subject to the achievement of performance hurdles, as determined by the NRHRC in August 2019.

In relation to the executive duties carried out by the Executive Chairman, the key terms of his services agreement with the Group were unchanged as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice, or without notice where the termination is "for cause". Forthwith in the event of incapacity or breach of the service agreement by the Executive Chairman without remedy.
Termination by Executive	Six months' notice or lesser period as agreed by the Group
Payments on Termination	Salary and statutory entitlements up to the date of termination and, if applicable, payment in lieu of the minimum notice period as per above.

Non-executive duties

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

Remuneration of the CEO

The Board, having regard to recommendations received through the NRHRC, determines the remuneration of the CEO.

The remuneration of the CEO was adjusted from 1 September 2019 by 2.5%, through the benchmarking and recommendation process referred to in the above Remuneration Guidelines.

The remuneration of the CEO in FY2019 was set in accordance with the following principles:

- an annual base salary of $753,198, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period, as approved by the Executive Chairman and the NRHRC in August 2019
- a short-term incentive up to $376,599 per annum subject to the achievement of agreed performance outcomes as approved by the Executive Chairman and the NRHRC in August 2019
- a long-term incentive plan up to $376,599 per annum, that is subject to the achievement of performance hurdles, as determined by the NRHRC in August 2019.

The CEO has a service agreement 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.

Remuneration of the CFO

A new CFO was appointed on 11 November 2019. The remuneration of the incoming CFO was determined with reference to the remuneration benchmarking referred to in the above remuneration guidelines.

The remuneration of the CFO from 11 November in FY2020 was set in accordance with the following principles:

- an annual base salary of $600,000, inclusive of superannuation, which is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period as approved by the CEO
- a short-term incentive up to $240,000 per annum, that was subject to the achievement of agreed performance outcomes as approved by the CEO using the agreed weighting as a percentage of base salary for the position as approved by the NRHRC in August 2019
- a long-term incentive plan up to $150,000 per annum, that is subject to the achievement of performance hurdles as approved by the CEO using the agreed weighting as a percentage of base salary for the position as approved by the NRHRC in August 2019.

The CFO has a service agreement, the key terms of which are as follows:

Term	Ongoing, subject to termination rights set out in the service agreement.
Termination by Group	Six months' notice or payment in lieu of such minimum notice, or without notice where the termination is "for cause". Forthwith in the event of incapacity or breach of the service agreement by the Executive 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.

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

The criteria to be applied are reviewed by the Board on an annual basis to ensure that they closely align with the specific corporate, leadership and financial objectives of the Group. The strategic plan, business and operating plans and annual budgets are the key reference points used in determining the criteria. Each year the NRHRC makes a recommendation to the Board for approval in respect of the determined criteria for all KMP.

For FY2020 each Executive KMP had a documented performance agreement that set individual performance objectives, described success factors for each objective and identified development opportunities that would help them in their current and future roles.

The performance objectives were clearly linked to the key strategic areas set for the business and aligned with the Group's values and performance objectives including improvement in Group safety performance, sales and volume growth, cost reduction and margin improvement and product quality improvement and customer service metrics.

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.

Executive KMP whose performance is rated as "under achieved" would not receive a base salary review, nor would they be entitled to any outcome under the short-term RAR program. Whilst actual performance of the individual Executive KMP is an important criterion in adjusting their base remuneration, the remuneration recommendations of the NRHRC also consider the financial performance of the Group.

The Executive Chairman's participation in the short-term RAR Plan was suspended for FY2020 due to his extended approved period of absence during FY2020.

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

At the end of the financial year, the CEO assesses a report from the Executive General Manager Human Resources as to the actual performance of the CFO against the determined criteria. The CEO also considers the audited Annual Report and other factors in formulating a recommendation as to the outcomes for the short-term RAR component of the remuneration for the CFO. A report and recommendation are then submitted to the NRHRC prior to being submitted to the Board for final review and approval. Board approval is required before the short-term RAR component of remuneration is paid to the CFO.

Long-term incentive plan

Following a review by the NRHRC of remuneration structures in FY2017, the Board established a long-term incentive plan as part of the remuneration framework for the Executive Chairman and the CEO. A further NRHRC review of remuneration structures in FY2018 recommended that a long-term incentive plan be extended to all the Executives reporting to the CEO, including the CFO.

The purpose of the Long-Term Incentive Plans (LTIPs) 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
- 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 have identical performance targets for Earnings Per Share (EPS) and Return on Funds employed (ROFE).

Long-term incentive plan FY2020 to FY2022

The FY2020 LTIP is designed to reward the CEO and Executive reports to the CEO for long term performance and long term value creation for shareholders. The table below outlines the key features of the FY2020 LTIP as it applies to the CEO and Executive reports to the CEO.

Vesting percentage	EPS growth targets FY2020-FY2022
Nil vesting	below 8% over the performance period
50% vesting	at 8% over the performance period
Pro-rated vesting between 50% and 100%	between 8% and 12% over the performance period
100% vesting	at 12% over the performance period

Vesting percentage	ROFE growth targets FY2020-FY2021
Nil vesting	below 7% over the performance period
50% vesting	at 7% over the performance period
Pro-rated vesting between 50% and 100%	between 7% and 10% over the performance period
100% vesting	at 10% or above over the performance period

Vesting percentage	ROFE growth targets FY2022
Nil vesting	below 8% over the performance period
50% vesting	at 8% over the performance period
Pro-rated vesting between 50% and 100%	between 8% and 11% over the performance period
100% vesting	at 11% or above over the performance period

The Board retains the discretion to adapt the calculation of the Long term Incentive Plan measures of the Earnings Per Share and Return on Funds Employed performance hurdles to reflect the impact of significant events, such as capital raising or corporate activity, that may occur during the performance periods.

Provided below are the details of Long-Term Incentive Plans for each of the Executive Chairman, the CEO and the CFO.

Long-term incentive plan – Executive Chairman

The Executive Chairman participates in two long-term incentive plans, being the 'Executive Chairman's Long-Term Incentive (LTI) Cash Plan (i) FY2019 to FY2021 and (ii) FY2020 to FY2022'.

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

As such, the Executive Chairman's LTI Cash Plan, FY2019 to FY2021 and FY2020 to FY2022 is to be paid in cash if hurdles are met, as detailed below.

Executive Chairman's LTI Cash Plan (i) FY2019 to FY2021, and (ii) FY2020 to FY2022

Grant Date:	(i) 1 July 2018; and (ii) 1 July 2019
Vesting Date:	(i) 30 June 2021; and (ii) 30 June 2022
Potential value of Plan:	(i) $202,437; and (ii) $207,498 Subject to the satisfaction of the performance hurdles and the vesting conditions (set out below).
Vesting Conditions:	No payment will be made unless the Executive Chairman remains employed with the Group during the entire performance period (i) 1 July 2018 to 30 June 2021; and 1 July 2019 to 30 June 2022.
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 55% of the potential value of the Plans granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets for the FY2019 to FY2021 plan and for the FY2020 to FY2022 plan. Those EPS growth targets are set out in the table above and apply over the entire performance period. **Return On Funds Employed (ROFE) Performance Rights** 45% of the potential value of the Plan will be subject to a performance hurdle based on the achievement of certain ROFE targets for the FY2019 to FY2021 plan and for the FY2020 to FY2022 plan. Those ROFE targets are set out in the table above and are assessed at the end of each year over the performance period. ROFE is calculated as the Group's earnings before interest and taxation, adjusted for any non-operating items, divided by shareholder's funds plus net interest bearing debt.

Long-term incentive plan – Chief Executive Officer and Chief Financial Officer

The CEO participates in two long-term incentive plans, being the 'LTI Performance Rights Plan (i) FY2019 to FY2021 and (ii) FY2020 to FY2022'. The CFO participates in one long-term incentive plan, being the (ii) 'LTI Performance Rights Plan FY2020 to FY2022'. 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 (i) FY2019 to FY2021 and (ii) FY2020 to FY2022 is calculated using the 'face value' method.

The face value of the performance rights for allocation purposes under the (i) FY2019 to FY2021 plan is $6.98. This was calculated by taking the five-day volume weighted average price of Bega Cheese Limited of $7.41 per share as at 1 July 2018, being the effective date of the CEO's long-term incentive plan agreement, and then deducting the present value of expected dividends forgone over the duration of the Plan (i.e. the dividends not received until the performance rights vest).

The face value of the performance rights for allocation purposes under the (ii) FY2020 to FY2022 plan is $4.45. This was calculated by taking the five-day volume weighted average price of Bega Cheese Limited of $4.85 per share as at 1 July 2019, being the effective date of the CEO's long-term incentive plan agreement, and then deducting the present value of expected dividends forgone over the duration of the Plan. (i.e. the dividends not received until the performance rights vest). The same face value of the performance rights was applied to the CFO, who participates in the Plan on a pro-rata service basis.

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:	There is no exercise price payable in relation to the exercise of the performance rights.
Vesting Conditions:	No performance right granted will vest and be automatically exercised unless the CEO remains employed with the Group during the entire performance period from (i) 1 July 2018 to 30 June 2021; and from (ii)1 July 2019 to 30 June 2022 , and the CFO from (ii)1 July 2019 to 30 June 2022
Performance Hurdles:	**Earnings Per Share (EPS) Performance Rights** 55% of the potential value of the Plan granted will be subject to a performance hurdle based on the achievement of certain EPS growth targets for the FY2019 to FY2021 plan and for the FY2020 to FY2022 plan. Those EPS growth targets are set out in the table on page 22 and are assessed at the end of each year over the performance period. **Return on Funds Employed (ROFE) Performance Rights** 45% of the potential value of the Plan granted will be subject to a performance hurdle based on the achievement of certain ROFE growth targets for the FY2019 to FY2021 plan and for the FY2020 to FY2022 plan. Those ROFE growth targets are set out in the table on page 22 and apply over the entire performance period. ROFE is calculated as the Group's earnings before interest and taxation, adjusted for any non-operating items, divided by shareholder's funds plus net interest bearing debt.

Additional Rules applicable to the CEO and CFO LTI Performance Rights Plan (i) FY2019 to FY2021, and (ii) FY2020 to FY2022

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

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

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

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

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

CEO LTI Performance Rights issued under the Plan (i) FY2019 to FY2021 and (ii) FY2020 to FY2022

Grant Date:	(i) 1 July 2018; and (ii) 1 July 2019
Vesting Date:	(i) 30 June 2021; and (ii) 30 June 2022
Number of Performance Rights offered:	(i) 51,343; and (ii) 82,599

CFO LTI Performance Rights issued under the Plan (ii) FY2020 to FY2022

Grant Date:	(ii) 11 November 2019
Vesting Date:	(ii) 30 June 2022
Number of Performance Rights offered:	(ii) 17,160

Long-term incentive plan FY2018 to FY2020 outcome

The FY2018 to FY2020 LTIP award which matured in FY2020 did not vest into cash in the case of the Executive Chairman or shares in the case of the CEO as both the ROFE and EPS targets under the 2018 plan were not met. The performance rights issued to the CEO under the FY2018 to FY2020 Plan have therefore lapsed.

KMP remuneration at-risk (RAR) outcome

RAR Gateways

The CEO and CFO are only entitled to any outcomes of the short-term RAR Plan if specific gateways are achieved. These gateways ensure that:

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

Individual gateways also applied to the CEO and CFO relating to individual performance with additional gateways relating to participation in safety, quality and environmental programs. These gateways ensure that:

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

Executive Chairman

The Executive Chairman's participation in the short-term RAR Plan was suspended for FY2020 due to his extended approved period of absence during FY2020.

Chief Executive Officer and Chief Financial Officer

The short-term RAR component for the CEO and CFO for FY2020 was determined in accordance with the 2020 RAR Plan approved by the Board. The CFO participates in the Plan on a prorata basis from the commencement of his employment from 11 November 2019.

If Group and individual gateways were both met, the CEO and CFO could achieve a RAR payment based on the achievement of the normalised Group EBITDA budget target (55%), safety (10%), free cash flow (15%) and strategic personal objective targets (20%). A normalised Group EBITDA stretch budget target is also set (10%).

The CEO and CFO achieved 30% of the Group EBITDA target, 15% for free cash flow target, and 0% for Group safety performance. The CEO achieved 15% for his personal objective's targets, and the CFO 18%. The former CFO met his personal gateways to be eligible for a payment under the 2020 short term RAR Plan. However, the Board has used its discretion to withhold all amounts otherwise due under the 2020 Plan to the former CFO, who has accepted accountability for previously reported errors in the FY2019 Annual Report.

Those RAR participants in the group who were involved in the FY2019 misstatement of financial results due to the delay of the deployment of the Enterprise Risk Planning system, which led to the misstatement, have had their RAR outcomes appropriately adjusted.

The maximum RAR for the CEO is equal to 50% of his total fixed remuneration. The maximum RAR for the CFO is equal to 40% of his total fixed remuneration on a prorata basis from 11 November 2019 in FY2020.

Board approach to 2020 RAR

The Board used the discretion that it has under the RAR Plan to open the Group financial performance gateway. Whilst the FY2020 financial achievement was just short of the Group target, it was at the upper end of market guidance given in October 2019. The Board recognised the excellent cash generation and significant disruption to the business due to drought, bushfires and COVID-19 during the year in exercising discretion.

Those RAR participants in the Group who were involved in the FY2019 misstatement of financial results due to issues associated with deployment of the Enterprise Risk Planning system, which led to the misstatement, have had their RAR outcomes appropriately adjusted.

The continued focus on cash generation was extended to the RAR program where the CEO and the CFO, Executives and other leaders, will have their payment made in the form of a share grant. The use of shares for short term incentive delivery is designed to conserve cash in an uncertain economic environment as the economy emerges from COVID-19 and to align employees with the goals of the organisation.

CEO	Group gateways	Individual gateways	Budget EBITDA 55%	OH&S criteria 10%	Free cash flow budget 15%	Personal objectives 20%	Total achieved %	Total forfeited %	Current fixed rem'n 2020 $	Outcome $
Paul van Heerwaarden	×	√	30%	0%	15%	15%	60%	40%	753,198	225,960
CFO										
Peter Findlay	×	√	30%	0%	15%	18%	63%	37%	600,000	95,953

Relationship between remuneration policy and group performance

The key indicators of Group performance and shareholder wealth relevant to the remuneration of KMPs that have been extracted from the FY2020 financial statements are as follows:

Key performance indicator		FY2020 Actual	FY2020 Normalised	FY2019 Actual	FY2019 Normalised	FY2018 Actual	FY2018 Normalised	FY2017 Actual	FY2017 Normalised	FY2016 Actual	FY2016 Normalised	FY2020 vs FY2019 Normalised Amount	%
Enterprise value	$m	1,190	1,190	1,309	1,309	1,617	1,617	882	1,334	914	914	(119)	(9)
Profit before tax	$'000	31,045	46,213	8,379	44,899	50,884	69,036	198,038	43,155	39,900	40,504	1,314	3
Profit after tax	$'000	21,268	31,886	4,447	30,929	28,768	44,003	138,748	30,331	28,779	29,202	957	3
Dividends per share	Cents	10	10	11	11	11	11	10	10	9.5	9.5	(1.00)	(9)
Earnings per share	Cents	9.9	14.9	2.1	14.9	15.6	23.9	90.9	19.9	18.9	19.1	-	-
Total shareholder return	%	-4.81	-4.81	-33.01	-33.01	15.51	15.51	16.7	16.7	32.91	32.91	28.20	(85)
KMP total remuneration	$'000	2,940	2,940	3,025	3,025	3,658	3,658	5,415	5,415	4,962	4,962	(85)	(3)

The outcomes above resulted in the RAR gateways opening and achievement of Group and individual RAR outcomes as outlined in the previous table.

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 Mondelēz Grocery Business acquisition that followed on 4 July 2017.

Details of remuneration

		Short-term benefits		Post-employment benefits	Long-term benefits		Share-based payment	Total
	Year	Cash salary and fees $	Short-term incentive $	Superannuation $	Leave [1] $	Long-term incentive [2] $	Equity settled performance rights [3] $	All amounts $
Executive Chairman								
Barry Irvin [4][5]	2020	569,565	-	25,000	49,957	(108,949)	-	535,573
	2019	572,810	78,642	25,000	50,572	1,646	-	728,670
Executives								
Paul van Heerwaarden	2020	725,238	225,960	25,000	78,730	-	(197,728)	857,200
	2019	707,448	136,056	25,000	91,769	-	3,915	964,188
Peter Findlay [6]	2020	371,152	95,953	18,258	34,983	-	21,636	541,982
	2019	-	-	-	-	-	-	-
Colin Griffin [7]	2020	155,617	-	8,910	53,254	-	(17,789)	199,992
	2019	429,036	67,472	25,000	57,265	-	58,941	637,714
Total Executive Remuneration	2020	1,821,572	321,913	77,168	216,924	(108,949)	(193,881)	2,134,747
	2019	1,709,294	282,170	75,000	199,606	1,646	62,856	2,330,572
Non-executive Directors								
Richard Cross	2020	93,876	-	8,705	-	-	-	102,581
	2019	89,344	-	8,488	-	-	-	97,832
Peter Margin [8]	2020	-	-	-	-	-	-	-
	2019	67,693	-	-	-	-	-	67,693
Raelene Murphy	2020	107,656	-	10,227	-	-	-	117,883
	2019	99,738	-	9,475	-	-	-	109,213
Jeff Odgers [9]	2020	92,694	-	8,806	-	-	-	101,500
	2019	90,606	-	8,608	-	-	-	99,214
Richard Parbery	2020	92,694	-	8,806	-	-	-	101,500
	2019	90,606	-	8,608	-	-	-	99,214
Max Roberts [10][11]	2020	164,050	-	15,714	-	-	-	179,764
	2019	106,087	-	10,078	-	-	-	116,165
Terry O'Brien	2020	108,676	-	10,324	-	-	-	119,000
	2019	96,179	-	9,137	-	-	-	105,316
Patria Mann [12]	2020	75,951	-	7,215	-	-	-	83,166
	2019	-	-	-	-	-	-	-
Total Non-Executive Remuneration	2020	735,597	-	69,797	-	-	-	805,394
	2019	640,253	-	54,394	-	-	-	694,647
Total KMP	2020	2,557,169	321,913	146,965	216,924	(108,949)	(193,881)	2,940,141
	2019	2,349,547	282,170	129,394	199,606	1,646	62,856	3,025,219

(1) *The expense relates to the combined long service and annual leave accrual during the year.*
(2) *Long-term incentive based on the achievement of specified milestones of the Executive Chairman's LTI Plan. The amount reflects the expense for the FY2018 to FY2020 proportion of the cash incentive due to vest in 2020. Further details of the Executive Chairman's LTI Plan are set out in the Summary of Plans above.*
(3) *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 $(193,881) in FY2020 reflects the write-back of expense incurred in prior periods relating to unvested rights that were forfeited in respect of the FY2018 to FY2020 plan ($258,798); less the current year expense for the LTI Plans that are expected to vest ($64,917) for the FY2020 to FY2022 plan. Further details of the CEO's and CFO's LTI Plan are set out in the Summary of Plan above.*
(4) *Includes remuneration for Non-executive Chairman responsibilities.*
(5) *Due to the Executive Chairman's leave of absence during the year he did not participate in the STI program in FY2020.*
(6) *Peter Findlay commenced as CFO on 11 November 2019.*
(7) *Colin Griffin ceased as CFO on 10 November 2019.*
(8) *Board Director Peter Margin resigned from the Board on 31 January 2019.*
(9) *Jeff Odgers resigned from the Board on 30 June 2020.*
(10) *Max Roberts received Board Chairman allowance from 1 July 2019 to 28 January 2020.*
(11) *Max Roberts appointed to PCA Board Chairman on 29 January 2020.*
(12) *Board Director Patria Mann commenced with the Board on 9 September 2019.*

Other matters

Related party transactions

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:

2020 – Numbers of ordinary shares	Balance at start of year	Other changes during the year	Balance at the end of the year
Executive Chairman			
Barry Irvin	2,707,841	(700,000)	2,007,841
Executive KMP			
Colin Griffin	145,538	1,133	146,671
Paul van Heerwaarden	47,857	-	47,857
Peter Findlay	-	-	-
Non-executive Directors			
Richard Cross	210,058	(20,058)	190,000
Raelene Murphy	8,964	-	8,964
Jeff Odgers	20,271	(20,271)	-
Richard Parbery	2,668,982	13	2,668,995
Terry O'Brien	10,120	3,203	13,323
Max Roberts[1]	1,457,857	(1,457,857)	-
Patria Mann	-	20,000	20,000

(1) Max Roberts ceased to be an alternate Director of Bega Cheese Limited on 30 January 2020 so his shareholdings are no longer required to be disclosed.

Transactions relating to milk

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

	CONSOLIDATED	
	2020 $	2019 $
Payments made by the Group during the year	8,440,785	7,150,526
Amounts outstanding at year end	521,141	543,743

Review of Financial Performance and Operations

Key highlights

The Bega Cheese Group has delivered its strategic objectives for FY2020. Revenue remains in solid growth and the Group continues to effectively manage challenging dynamics in milk procurement, extended drought conditions, extreme weather events and more recently a global pandemic. The Group continues to accelerate innovation in branded food, optimise cost structures to be globally efficient, and diversify the supplier base. Key achievements for FY2020 are set out below.

Finance and operational overview

The Company acknowledges the misstatement in our FY2019 accounts relating to the implementation of the Group's new enterprise resource planning (ERP) system during the transition of the Koroit facility into the business. This was discovered and corrected in our 1HFY2020 report. Comparisons in June's report will be to the corrected FY2019 EBITDA, EBIT, PBT and PAT.

After adjusting for one-off items, the Group generated top line revenue of $1.49 billion, up 5%, normalised EBITDA of $103.0 million, down 2%, normalised PAT of $31.9 million, up 3% and normalised earnings per share of 14.9 cents, flat on prior year. Notwithstanding the considerable challenge brought about by the COVID–19 pandemic in the last quarter, the Group's underlying financial performance is in line with guidance provided on 29 October 2019.

The Group faced a number of headwinds throughout FY2020, with drought placing pressure on milk supply and a sharp increase in farm gate prices. The reduced volume and increased cost of supply created a reduction in FY2020 margin of approximately $80.0 million on a prior year comparative basis. This was partially offset by stronger commodity pricing and favourable foreign currency exposure. This outcome combined with additional bushfire related costs of $2.5 million and COVID-19 security measures of $1.0 million meant a significant challenge in maintaining the normalised EBITDA of FY2019. The business was able to largely mitigate these challenges by continuing to realign our product mix and the execution of cost initiatives. The Coburg plant was closed, and new toll arrangements were initiated. The Group achieved $14.0 million of efficiency savings across our plants. Further savings were made across the supply chain of $3.0 million and monthly salaries of $5.0 million.

Bega Cheese has continued to make progress with reducing net debt throughout FY2020. Net debt fell year on year by $51.8 million.

The Group manufactured 297,668 tonnes of dairy, spreads, grocery and peanut products in both branded and bulk formats during FY2020. This represents a reduction of 5,584 tonnes or almost 2% on the prior year and is due to lower milk intake as a result of prolonged drought and increased competition for supply.

As mentioned, lactoferrin manufacturing capacity was increased through the construction and commissioning of the lactoferrin plant in Koroit which commenced production in April 2020. Supply began in accordance with a multi-year agreement with a major international nutritional company.

Existing facilities will continue to be operated with manufacturing capacity adjusted to support sustainable growth and cost efficiency. A secondary manufacturing footprint review commenced during FY2020 focused on optimisation of facilities at Strathmerton in Victoria and Ridge Street in Bega. In July 2020, the Group announced the consolidation of some of our processed cheese capability, with production to move from the Bega Ridge Street facility to the Strathmerton facility. This work will occur across three stages in FY2021.

Milk received was 955 million litres, which is down on the record 1.06 billion litres in FY2019. The reduction was due to an overall decrease in the Australian milk pool, particularly in northern Victoria and the Bega Valley where prolonged and challenging drought conditions caused increased milk competition. The Group continues to acknowledge the loyalty of our milk suppliers and welcomes new suppliers.

Business integration

The Koroit dairy facility in Western Victoria, acquired in August 2018, is now embedded into the growth and overall performance of the Group. This acquisition expanded the geographic diversification of the milk pool available to the Group, enabling the business to optimise milk streams and product return benefits. The assets and infrastructure provide significant dairy manufacturing capability and capacity, which has supported increased dairy goods production and added to our product portfolio the areas of retail, foodservice and bulk butter, retail powdered milk, growing up milk powders, skim milk powder and whole milk powder. In FY2020, we invested in lactoferrin capability at the Koroit facility which began generating incremental sales for the Group through the last quarter of FY2020. The rollout of a new centralised ERP system was completed with implementation at the Tatura and Koroit sites at the end of July 2019. Deployment of a single consolidated ERP system will result in improved business information, integration and efficiency opportunities across the business.

Insurance matters

Insurance premiums continue to rise with insurance companies continuing to demand increased premiums on the back of global losses, particularly relating to industrial special risk associated with expanded polystyrene panel which exists throughout a number of our manufacture and storage facilities. Total general insurance costs for FY2020 were $16.9 million, an increase on prior year of $5.2 million. A comprehensive review of our insurance in early 2020 lead to a change in brokers and assisted in securing a positive outcome for FY2021 renewals. Management has implemented a strategy, supported by the Board, to mitigate risks associated with increasing premiums and expanded polystyrene panel.

Organisational Process Review

Following the acquisitions in recent years of the Mondelēz Grocery Business, Peanut Company of Australia and the ex-Murray Goulburn dairy facility at Koroit, Bega Cheese has transformed into a larger and diverse company competing in dairy and non-dairy categories with operations across eight manufacturing sites in three states and over 1,800 employees.

An organisational review commenced during FY2020 to streamline our processes and workflows with the aim of increasing efficiency. Analysis and external benchmarking was conducted throughout the year to enable the business to realise savings in FY2021, with most changes being executed in the first half.

The benchmarking review concluded we had the opportunity to reduce our cost structure by consolidating back office functions, outsourcing and eliminating some functions and processes, and taking advantage of operating on a single common ERP system. While some of the savings were realised in the second half of FY2020, these savings were offset by one-off costs including redundancies and consulting fees that are all reflected in the normalised result.

A hiring freeze early in the financial year reduced the cost and personnel impact of the review. Further savings are expected in FY2021 from the organisation and process review, including the recent announcement in July of 35 redundancies. The total reduction in the number of employees to date is 110 compared to our base workforce in early FY2020. This includes the redundancies announced recently and other redundancies announced during FY2020, along with the impact of the hiring freeze.

New segments

In March 2020, the Group announced that as a result of recent acquisitions the Board of Directors were reviewing the overall structure of the business activities of the Group and how activities were to be reported to the Chief Operating Decision Makers (CODM).

Following the outcome of this review, the Group has two reporting segments:

i. Branded – the manufacture of bulk ingredients into value added consumer products for internal or external brands.

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

Prior to inter-segment elimination, EBITDA growth of Branded and Bulk in FY2020 was higher 5.3% and 6.2% respectively. Growth in Branded was largely due to an increase in retail spreads sales and optimisation programs across overheads and conversion costs. Bulk EBITDA performance was largely as a result of favourable commodity driven sales prices, foreign exchange, new third party contractual arrangements and cost improvement initiatives across production sites. This was partially offset by a higher cost of farm gate milk.

Dividends paid in FY2020

On 28 August 2019 Bega Cheese declared a final FY2019 fully franked dividend of 5.5 cents per share, representing a distribution of $11.8 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 1 October 2019 and raised $2.2 million in new share capital.

On 1 March 2020 Bega Cheese declared an interim fully franked dividend of 5.0 cents per share, representing a distribution of $10.7 million. The Directors again activated the Group's DRP for this dividend. Shares purchased under the DRP were allotted on 3 April 2020 and raised $0.8 million in new share capital.

On 27 August 2020 Bega Cheese declared a final fully franked dividend of 5.0 cents per share representing a distribution of $ 10.7 million, a decline of $1.1 million compared to the 2019 final dividend. The DRP will be available for this dividend.

Reconciliation of statutory and normalised performance

As in previous years, the Group will report on both the statutory result and the normalised result for FY2020 compared to the prior year, with the focus of commentary being on the normalised result.

GROUP STATUTORY RESULT FY2020

On a statutory reporting basis, the Group generated:

- earnings before interest, tax, depreciation and amortisation (EBITDA) of $87.8 million, compared to $78.9 million in FY2019, being an increase of 11%
- earnings before interest and tax (EBIT) of $42.0 million compared to $28.3 million in FY2019, being an increase of 48%
- profit before tax (PBT) of $31.0 million, compared to $8.4 million in FY2019, being an increase of 269%
- profit after tax (PAT) of $21.3 million, compared to $4.4 million in FY2019, being an increase of 384%
- earnings per share (EPS) of 9.9 cents, compared to 2.1 cents in FY2019, being an increase of 371%.

GROUP NORMALISED RESULT FY2020

The statutory result for the Group in each of FY2020 and FY2019 included several one-off items, most of which related to corporate activity. While these items each 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, normalising adjustments have been made to the statutory financial statements for each of these items and are set out in more detail in the table on page 30. On a normalised basis the Group generated:

- EBITDA of $103.0 million, compared to $104.9 million in FY2019, being a decrease of 2%
- EBIT of $57.2 million, compared to $64.5 million in FY2019, being a decrease of 11%
- PBT of $46.2 million, compared to $44.9 million in FY2019, being an increase of 3%
- PAT of $31.9 million, compared to $30.9 million in FY2019, being an increase of 3%
- EPS of 14.9 cents, which was the same in FY2019.

MATERIAL ITEMS IMPACTING GROUP NORMALISED RESULT FY2020 AND PRIOR YEAR

Normalising adjustments in FY2020

- Legal and other expert advisory fees totalled $9.7m and were related to defending legal actions initiated by Kraft Foods Group Brands LLC (Kraft), with the significant majority of legal issues determined by the Courts to be in favour of Bega Cheese. Kraft has now sought special leave to appeal to the High Court. Legal and other expert advisory fees relate to defending legal actions taken by Fonterra Brands (Australia) Pty Ltd (Fonterra) against Bega Cheese and by Bega Cheese against Fonterra in the Supreme Court of Victoria. The trial in the Supreme Court of Victoria was completed in July 2020 and we are now awaiting judgment (FY2019: $3.8 million)
- One-off operating costs related to the deployment of a centralised ERP totalled $5.3 million (FY2019: $3.5 million)
- Residual acquisition costs associated with the Koroit facility in 1HFY2020 totalled $0.3m (FY2019: $11.0 million).

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 $'000	Koroit Acquisition Costs $'000	Koroit Fair Value Adjustments $'000	Coburg Site Closure Costs $'000	Legal Costs $'000	ERP Costs $'000	Normalised Outcome $'000
Period ending 30 June 2020							
Revenue	1,493,219	-	-	-	-	-	1,493,219
Cost of sales	(1,204,171)	-	-	-	-	-	(1,204,171)
Gross profit	**289,048**	**-**	**-**	**-**	**-**	**-**	**289,048**
EBITDA	87,824	253	-	-	9,650	5,265	102,992
Depreciation, amortisation and impairment	(45,808)	-	-	-	-	-	(45,808)
EBIT	42,016	253	-	-	9,650	5,265	57,184
Net finance costs	(10,971)	-	-	-	-	-	(10,971)
Profit before income tax	**31,045**	**253**	**-**	**-**	**9,650**	**5,265**	**46,213**
Income tax expense	(9,777)	(76)	-	-	(2,895)	(1,579)	(14,327)
Profit for the year	**21,268**	**177**	**-**	**-**	**6,755**	**3,686**	**31,886**
Gross margin - percentage	**19.4%**						**19.4%**
Basic earnings per share - cents	**9.9**						**14.9**

CONSOLIDATED	Per Financial Statements $'000	Koroit Acquisition Costs $'000	Koroit Fair Value Adjustments $'000	Coburg Site Closure Costs $'000	Legal Costs $'000	ERP Costs $'000	Normalised Outcome $'000
Period ending 30 June 2019 (restated)							
Revenue	1,419,952	-	-	-	-	-	1,419,952
Cost of sales	(1,140,206)	-	2,648	-	-	-	(1,137,558)
Gross profit	**279,746**	**-**	**2,648**	**-**	**-**	**-**	**282,394**
EBITDA	78,933	11,019	2,648	4,942	3,783	3,542	104,867
Depreciation, amortisation and impairment	(50,602)	-	-	10,229	-	-	(40,373)
EBIT	28,331	11,019	2,648	15,171	3,783	3,542	64,494
Net finance costs	(19,952)	357	-	-	-	-	(19,595)
Profit before income tax	**8,379**	**11,376**	**2,648**	**15,171**	**3,783**	**3,542**	**44,899**
Income tax expense	(3,932)	(2,495)	(794)	(4,551)	(1,135)	(1,063)	(13,970)
Profit for the year	**4,447**	**8,881**	**1,854**	**10,620**	**2,648**	**2,479**	**30,929**
Gross margin - percentage	**19.7%**						**19.9%**
Basic earnings per share - cents	**2.1**						**14.9**

Cash flow, net debt and group capital management

CASH FLOWS

Operating activities - Bega Cheese Group generated net cash inflows from operating activities of $137.7 million in FY2020, compared to $100.3 million in FY2019. Key items generating operating cash flow in FY2020 were:

- net profit after tax and after adjusting back non-cash items of depreciation and amortisation of $66.0 million
- improvement in working capital of $61.4 million through strong receivables and inventory management.

Investing activities - Bega Cheese Group incurred net cash outflows from investing activities of $52.6 million in FY2020, which included the following key items:

- payment of $28.0 million on the new lactoferrin plant at Koroit
- payments totalling $14.1 million for the deployment of a new ERP system.

Financing activities - Bega Cheese Group incurred net cash outflows from financing activities of $91.0 million in FY2020, which included the following key items:

- net repayment of borrowings of $68.8 million
- dividend payments of $19.5 million.

NET DEBT AT YEAR END

Bega Cheese Group had consolidated net debt of $236.4 million as at 30 June 2020 compared to $288.2 million at 30 June 2019, being a reduction of $51.8 million or 18%, with the significant movement in net debt being the result of operating cash flow of $137.7 million, partially offset by investing activities of $52.6 million and dividend payments of $19.5 million.

BALANCE SHEET CAPITAL MANAGEMENT

The Group continues to enjoy the support of its bankers via 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 overdraft and guarantee facilities provided by Westpac.

On 20 December 2019, the Rabo Trade Receivables Facility was renewed with an expiry date of 31 January 2022. Facility Four ($100 million) and Facility Five ($100 million) of the Syndicated Debt Facility were extended to 30 September 2022.

With the Group reducing net debt throughout FY2020, the normalised EBITDA to net debt leverage ratio has reduced from 2.75 times to 2.35 times and means Bega Cheese is well within year end bank covenants of 3.75 times. Bank covenants reduce to 3.5 times for December 2020 and further reduce to 3.0 times from March 2021 onwards. Bega Cheese expects its leverage ratio to continue to trend favourably throughout FY2021 and is in a strong position to meet covenant requirements in the future.

Capital investment

Capital invested in plant and equipment totalled $42.2 million in FY2020 (FY2019: $42.7 million), with the key investments being:

- completion of a new lactoferrin plant at the Koroit facility
- various projects to improve the safety of our sites
- upgraded existing manufacturing capability to support new product innovation.

The Group completed its investment in the new ERP system, spending $9.1 million in FY2020 (FY2019: $21.0 million), with key milestones being:

- project commencement in FY2016, later significantly expanded as the business introduced new acquisitions including Bega Foods, the Koroit facility, as well as important commercial alliances with domestic dairy partners to facilitate rationalisation of manufacturing capacity
- deployment at Bega Foods in two stages during FY2018, being in operation across this part of the business since February 2018
- implementation across additional Group sites in October 2018 and for 'order to cash' at the Koroit facility in April 2019
- final deployment rolled out at the Tatura and Koroit facilities in July 2019.

Commentary on investing activity

Bega Foods

Bega Foods was acquired on 4 July 2017 and is now embedded into to the overall performance of the Group with strong year on year EBITDA growth.

Bega Foods has increased sales and market share in spreads within Australia through the extension of new packaging formats and variants in Vegemite and Peanut Butter, as well as the launch of Bega's own honey brand B honey in FY2020. Bega continues to actively market the iconic Vegemite brand, as well as Bega Peanut Butter and Simply Nuts. Bega launched into the area of retail block butter in Australian supermarkets via the Farmer's Table brand.

Prolonged drought conditions in key growing areas of Bundaberg, Kingaroy and Tolga Queensland reduced the amount of Australian peanuts processed in FY2020. We are encouraged by improved weather conditions in recent times and expect favourable growth in Peanuts for the next season.

Koroit facility

The Group acquired the Koroit facility in August 2018 and the activities of the Koroit facility are consolidated within the Bega Cheese Limited entity.

The new ERP system went live for Koroit manufacturing in July 2019.

The Milk Supply Guarantee Agreement (MSG) under which Bega Cheese was entitled to receive up to 300 million litres of milk per annum (as adjusted for milk that transitions from the defined milk pool to Bega Cheese directly) ceased on 30 June 2020. The acquisition of Koroit has enabled the Group to broaden its milk supplier base during challenging conditions.

Capitol Chilled Foods

The Group maintained its 25% shareholding in Capitol Chilled Foods (Australia) Pty Ltd (CCFA), a regional milk processor based in Canberra, with Lion Dairy and Drinks holding the other 75%.

180 Nutrition

The Group maintained its 61% controlling share in 180 Nutrition Pty Ltd.

Bemore Partnership

Bemore was a joint operation owned jointly by Bega Cheese Investments Pty Ltd and Blackmores SPV Co Pty Ltd. The Bemore Partnership was wound up on 24 February 2020.

Business risks

The senior management team is responsible for minimising and controlling 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 2020 financial year reporting period.

Areas of risk that may impact the Group's financial and operating result in future periods includes but is not limited to the following:

Strategic growth

The Group's strategy is to grow both organically and through acquisition. This strategy may place significant demands on management, resources, internal controls and systems resulting in the failure to realise anticipated benefits or effectively integrate acquisitions. The Group uses independent advisors when assessing new opportunities and engages additional resources as required to manage the specific needs of the opportunity.

Commercial

Access to raw materials

Milk and peanuts are key ingredients used by the Group. An inability to access the necessary volumes would result in reduced output. The Group operates within all legislative requirements including the Dairy Code of Conduct, and has contracts in place with its farmer suppliers to secure supply. We actively diversify our supply by seeking suppliers in more regions to grow volume and mitigate against climatic impacts. The Group has programs in place with its suppliers, such as Bega Better Farms, to encourage sustainable farming practices and strengthen our relationships.

Changing consumer trends

The Group has active sales, marketing and new product development teams to identify emerging consumer trends ensuring product portfolio and manufacturing capability remains relevant.

Regulation and compliance

Not meeting industry or regulatory compliance requirements may lead to the loss of licences and accreditation and the inability to provide services or offer rebates which will reduce the provision of services. The Group engages both internal and external resources to ensure compliance with existing and emerging regulatory requirements. These requirements include but are not limited to the following:

- food safety and quality;
- competition and consumer legislation;
- international trade rules;
- chain of responsibility;
- brand protection and intellectual property;
- contracts with stakeholders;
- corporate social responsibility; and
- environmental management.

Health, safety and environment

This relates to the risk of harm to employees due to a lack of effectiveness in workplace health and safety systems or major business disruption caused by an environmental breach. The Group actively manages this risk through several initiatives including:

- key performance measures for management;
- induction, training and contractor management;
- behavioural safety programs;
- our safety management system including policies and procedures;
- critical risk register and engagement of subject matter experts as required;
- incident management and corrective actions;
- environmental management system implemented across all sites; and
- adherence to all EPA licence obligations across all sites.

Privacy and confidentiality

The Group ensures secure processing, transmission and storage of confidential, proprietary and other information in its IT infrastructure. The loss or misuse of personal information, or inadequate and insecure data protection and privacy protocols may result in a breach of customer and supplier privacy and confidentiality.

Business continuity, disaster recovery and crisis management: This relates to the risk that a major event severely disrupts production and impacts customer supply - and includes our business response to a COVID-19 outbreak in one or multiple sites. Crisis and business continuity plans are in place at each site for key foreseen events. These plans are regularly reviewed and tested with training provided to management and employees.

Technology and security

Cyber intrusion. This concerns the risk that a material cyber intrusion could severely disrupt operations or otherwise compromise critical information. The Group uses reputable providers of security hardening services and regularly performs penetration testing and employee training.

Recruitment and retention

This relates to the risk that the business does not have the right people in the right roles to support its strategy and vision. The Group adopts a rigorous recruitment and review process that is underpinned by its values. Incentives are in place providing short term and long-term benefits where appropriate to attract and retain key employees. Succession plans are in place for key roles reviewed annually.

COVID-19

Whilst the Group's markets for goods were disrupted by COVID-19, the financial performance was not materially impacted by the pandemic.

The safety and wellbeing of the Group's employees, customers, consumers, business partners and community remains the highest priority.

Additional measures to protect the health and safety of our people and our consumers were implemented, including:

- executive crisis team formed in February 2020 to rapidly respond to the changing situation;
- social distancing measures;
- additional cleaning of all manufacturing sites;
- increased restrictions and temperature testing across all of our manufacturing sites;
- flexible working arrangements for office employees;
- travel restrictions; and
- increased use of technology platforms to facilitate remote working.

The Group's manufacturing sites and supply and logistics business partners remain fully operational. Additional measures have been adopted to minimise the risk of future supply disruptions. Our employees have shown great resilience and have been remarkable in dealing with the rapid but necessary changes. We are also pleased that no job losses have been incurred in our business as a direct result of COVID-19.

The financial performance of the Group remained strong. Retail sales accelerated as demand for supermarket staple food products increased through increased home consumption. Demand across the foodservice channel was negatively impacted, along with bulk ingredients products due to a reduction in away-from-home consumption both in Australia and Internationally. The reduction of Daigou shoppers in Australia and an increase in the cost of airfreight due to fewer international flights negatively impacted sales in Q4. The increased diversification of the Group's product portfolio through recent acquisitions has been important in responding to the changing needs of consumers. This has enabled our business to be well placed to navigate future changes as a result of the pandemic.

The Group did not receive any Australian Government COVID-19 subsidies.

The Group has established a multi scenario COVID-19 business continuity plan to ensure the ongoing viability of the business including but not limited to:

- contracts in place ensuring key suppliers compliance to appropriate pandemic precautions;
- diversified supplier base for essential inputs;
- splitting of critical teams in our manufacturing facilities;
- supply chain third party providers following regulatory and Group policies;
- flexible domestic and international product mix to meet emerging circumstances;
- selective inventory build; and
- monitoring international ports for major disruptions.

Outlook

The Group will continue to focus on product innovation and cost reduction in FY2021. The execution of the organisational review, consolidation of secondary manufacturing and offtake from the new lactoferrin plant will be key activities. The improved financial performance of the business will also underpin further cash realisation and a continued reduction in net debt.

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 thousand dollars, or in certain cases, to the nearest dollar.

Matters subsequent to the end of the financial year

On 27 August 2020, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $10.7 million.

During July 2020, the Group announced that following the ongoing organisation and process review, there would be 35 redundancies across the business. In addition, the Group intends to implement an optimisation strategy at our processed cheese making facilities at Strathmerton and Ridge Street Bega with a further 63 roles to become redundant during the period of August to October 2021. The Group expects the restructuring associated with the reduction in positions to cost approximately $5.1 million for FY2021.

No other matters or circumstances occurring subsequent to the end of the financial year have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future years.

Auditor

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

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

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

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

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 2020

Auditor's Independence Declaration

Report on the audit of the financial report

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2020, 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 2020

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Corporate Governance Statement

The Bega Cheese Group is committed to achieving and maintaining the highest standards of accountability and transparency in the management and conduct of its business.

The Board has adopted corporate governance policies and practices 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 2020 $'000	Restated* 2019 $'000
Revenue	5	1,493,219	1,419,952
Cost of sales		(1,204,171)	(1,140,206)
Gross profit		**289,048**	**279,746**
Other revenue	5	8,996	8,546
Other income	5	4,950	3,888
Distribution expense		(86,551)	(84,986)
Marketing expense		(35,686)	(38,267)
Occupancy expense		(13,989)	(13,542)
Administration expense		(123,453)	(100,776)
Transaction costs relating to Koroit acquisition		-	(11,019)
Impairment of assets	6	(1,052)	(10,229)
Coburg site closure costs		-	(4,942)
Finance costs	6	(11,280)	(20,363)
Share of net profit of joint venture	24	62	323
Profit before income tax		**31,045**	**8,379**
Income tax expense	7a	(9,777)	(3,932)
Profit for the year attributable to owners of Bega Cheese Limited		**21,268**	**4,447**
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss			
Cash flow hedges		(1,221)	714
Change in the fair value of other financial assets		-	(8)
Total other comprehensive (expense)/income		**(1,221)**	**706**
Total comprehensive income for the year attributable to owners of Bega Cheese Limited		**20,047**	**5,153**

		2020 Cents	2019 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share	3	9.9	2.1
Diluted earnings per share	3	9.9	2.1

* See note 32 for details about restatements.

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

Consolidated Balance Sheet

	Notes	CONSOLIDATED 2020 $'000	Restated* 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19	22,882	28,760
Trade and other receivables	8	117,419	179,910
Derivative financial instruments	9	1,309	754
Inventories	10	257,372	272,625
Current tax assets		10,703	9,168
Total current assets		**409,685**	**491,217**
Non-current assets			
Other financial assets	9	716	716
Property, plant and equipment	11	454,724	443,331
Deferred tax assets	7e	6,696	4,444
Other receivables	8	2,053	14,028
Intangible assets	12	548,136	546,100
Investments accounted for using the equity method	24	1,403	1,341
Total non-current assets		**1,013,728**	**1,009,960**
Total assets		**1,423,413**	**1,501,177**
LIABILITIES			
Current liabilities			
Trade and other payables	13	253,389	274,877
Derivative financial instruments	15	61	175
Borrowings	14	2,978	13
Provisions	16	49,546	48,996
Total current liabilities		**305,974**	**324,061**
Non-current liabilities			
Borrowings	14	255,550	316,058
Provisions	16	2,879	1,773
Deferred tax liabilities	7e	44,971	44,271
Total non-current liabilities		**303,400**	**362,102**
Total liabilities		**609,374**	**686,163**
Net assets		**814,039**	**815,014**
EQUITY			
Share capital	17a	480,507	477,494
Reserves	18a	20,859	22,860
Retained earnings		312,673	314,660
Capital and reserves attributable to owners of Bega Cheese Limited		**814,039**	**815,014**
Total equity		**814,039**	**815,014**

* See note 32 for details about restatements.

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

Consolidated Statement of Changes in Equity

Consolidated	Share capital $'000	Share-based payment reserve $'000	Capital profits reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Transactions with non-controlling interests $'000	Retained earnings* $'000	Total $'000
Balance as at 1 July 2018	274,862	508	33,959	(442)	8	(12,567)	332,113	628,441
Profit for the year (restated*)	-	-	-	-	-	-	4,447	4,447
Other comprehensive income for the year	-	-	-	714	(8)	-	-	706
Transactions with owners in their capacity as owners:								
- Issue of shares, net of transaction costs and tax (note 17)	202,632	-	-	-	-	-	-	202,632
- Share-based payments relating to incentives (note 31)	-	688	-	-	-	-	-	688
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(21,900)	(21,900)
Balance as at 30 June 2019 (restated*)	**477,494**	**1,196**	**33,959**	**272**	**-**	**(12,567)**	**314,660**	**815,014**
Change in accounting policy	-	-	-	-	-	-	(787)	(787)
Restated balance as at 1 July 2019	477,494	1,196	33,959	272	-	(12,567)	313,873	814,227
Profit for the year	-	-	-	-	-	-	21,268	21,268
Other comprehensive income for the year	-	-	-	(1,221)	-	-	-	(1,221)
Transactions with owners in their capacity as owners:								
- Issue of shares (note 17)	3,013	-	-	-	-	-	-	3,013
- Share-based payments relating to incentives (note 31)	-	(780)	-	-	-	-	-	(780)
- Dividends provided for or paid (note 4)	-	-	-	-	-	-	(22,468)	(22,468)
Balance as at 30 June 2020	**480,507**	**416**	**33,959**	**(949)**	**-**	**(12,567)**	**312,673**	**814,039**

* See note 32 for details about restatements.

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

Consolidated Statement of Cash Flows

	Notes	CONSOLIDATED 2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		1,691,644	1,422,126
Payments to suppliers and employees inclusive of goods and services tax		(1,494,944)	(1,476,828)
Net (payments)/proceeds to/from Trade Receivables Facility		(35,359)	188,601
Interest and other costs of financing paid		(11,280)	(20,363)
Income taxes paid	7f	(12,330)	(13,264)
Net cash inflow from operating activities	19	**137,731**	**100,272**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares in listed companies		-	30,981
Payments for shares in listed companies		-	(29,609)
Payments for shares in unlisted companies		(1,000)	(716)
Interest received		309	411
Dividend received		-	15
Payments for property, plant and equipment		(42,752)	(42,300)
Net proceeds from sale of property, plant and equipment		4,952	203
Payments for intangible assets		(14,085)	(20,049)
Payment for acquisition of Koroit		-	(251,173)
Acquisition related costs		-	(11,019)
Joint venture distributions received		-	375
Net cash (outflow) from investing activities		**(52,576)**	**(322,881)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		18,202	395,083
Repayment of borrowings		(87,000)	(346,011)
Principal elements of lease payments		(2,780)	(104)
Net proceeds from issue of shares		-	199,859
Dividends paid to members	4	(19,455)	(19,127)
Net cash (outflow)/inflow from financing activities		**(91,033)**	**229,700**
Net (decrease)/increase in cash and cash equivalents		**(5,878)**	**7,091**
Cash and cash equivalents at the beginning of the year		28,760	21,669
Cash and cash equivalents at the end of the year	19	**22,882**	**28,760**

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

How numbers are calculated

1. Significant events in the accounting period

A. Dividend reinvestment plan

The Group's Dividend Reinvestment Plan (DRP) will be activated for the FY2020 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 FY2020 final fully franked dividend to be paid on 7 October 2020 must be recorded by the registry by 5:00 pm on 10 September 2020 to be effective for that dividend.

B. Kraft legal action

On 1 May 2019, the Federal Court of Australia delivered judgment in favour of Bega Cheese in proceedings that were commenced by Kraft Foods Group Brands LLC and H.J. Heinz Company Australia Limited (collectively referred to as Kraft Heinz) in November 2017.

In the proceedings, Kraft Heinz challenged Bega Cheese's use and promotion of the trade dress (yellow lid, clear jar, yellow label with red or blue peanut device) of the Bega Cheese peanut butter products. However, the 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. The Court also ordered Kraft Heinz to pay Bega Cheese's costs of the proceedings.

Kraft Heinz filed an appeal against the judgment of the Federal Court on various grounds. The Full Federal Court dismissed the appeal in its judgment delivered on 14 April 2020 and confirmed Bega Cheese's ownership of the trade dress rights.

Kraft Heinz has now filed an application in the High Court of Australia seeking special leave to appeal from the judgment of the Full Federal Court. Bega Cheese has filed a response to the application and the High Court has set a date in mid-November 2020 to hear the application for special leave to appeal. Subject to the outcome of the application for special leave and (if special leave is granted) the decision of the High Court, the amount of compensation to which Bega Cheese is entitled to be paid arising from Kraft Heinz's use of the peanut butter trade dress will be considered and determined in a further hearing before the Federal Court.

C. Fonterra legal action

In 2001, Bega Cheese granted Fonterra an exclusive licence to use the Bega trademarks in Australia on natural cheddar cheese, processed cheddar cheese, string cheese and butter (Licensed Products). Fonterra commenced legal proceedings in the Supreme Court of Victoria seeking orders including declarations that Bega Cheese cannot use the Bega trademarks in Australia on products outside of the Licensed Products without Fonterra's consent, as well as damages. Bega Cheese, as owner of the trademarks, has vigorously opposed Fonterra's position and asserted its rights to use its trademarks in Australia. Bega Cheese has also made various counter claims in respect of alleged breaches of the licence by Fonterra. The hearing by the Supreme Court of Victoria has concluded and the parties are awaiting the decision of the Court.

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).

In March 2020, the Group announced that as a result of recent acquisitions the Board of Directors were reviewing the overall structure of the business activities of the Group and how activities were to be reported to the CODM.

Following the outcome of this review, the Group has two reporting segments:

i. Branded – the manufacture of bulk ingredients into value added consumer products for internal or external brands.
ii. Bulk – the manufacture of bulk dairy ingredients, nutritional and bio nutrient products.

The CODM assesses the performance of the operating 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.

B. Segment information provided to the CODM

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2020 is as follows:

	Branded $'000	Bulk $'000	Unallocated overheads $'000	Inter-segment eliminations $'000	Group Total $'000
Year ending 30 June 2020					
Revenue	878,568	977,383	-	(362,732)	1,493,219
EBITDA	76,056	42,267	(30,096)	(403)	87,824
Depreciation, amortisation and impairment					(45,808)
EBIT					42,016
Interest revenue					309
Interest expense					(11,280)
Profit before income tax					**31,045**
Income tax expense					(9,777)
Profit for the year					**21,268**
Impact of current year events on profit before tax					
Legal costs	-	-	(9,650)	-	(9,650)
Other costs (Post implementation costs of ERP)	-	-	(5,518)	-	(5,518)

2. Segment information (cont.)

Prior period comparative segment information has been restated as follows:

	Branded $'000	Bulk $'000	Unallocated overheads	Inter-segment eliminations $'000	Group Total $'000
Year ending 30 June 2019 (restated)					
Revenue	822,133	856,189	-	(258,370)	1,419,952
EBITDA	72,221	39,803	(32,093)	(998)	78,933
Depreciation, amortisation and impairment					(50,602)
EBIT					28,331
Interest revenue					411
Interest expense					(20,363)
Profit before income tax					**8,379**
Income tax expense					(3,932)
Profit for the year					**4,447**
Impact of current year events on profit before tax					
Transaction costs relating to Koroit acquisition	-	-	(11,019)	-	(11,019)
Fair value adjustments relating to Koroit acquisition	-	-	(2,648)	-	(2,648)
Coburg site closure costs	-	(15,171)	-	-	(15,171)
Legal costs	-	-	(3,783)	-	(3,783)
Other costs	-	-	(3,542)	-	(3,542)

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 2020 $'000	2019 $'000
Sales to external customers in Australia		
Branded	649,842	612,944
Bulk	319,900	352,303
Total sales to external customers in Australia	969,742	965,247
Sales to external customers in other countries		
Branded	228,726	209,189
Bulk	294,751	245,516
Total sales to external customers in other countries	523,477	454,705
Total sales to external customers	**1,493,219**	**1,419,952**

3. Earnings per share

	CONSOLIDATED	
	2020 Cents	Restated 2019 Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	9.9	2.1
Diluted earnings per share	9.9	2.1
	2020 Number	**2019** Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	214,163,264	207,222,774
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	349,081	261,176
Shares used as the denominator in calculating diluted earnings per share	214,512,345	207,483,950
	2020 $'000	**2019** $'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	21,268	4,447

4. Dividends to shareholders

	COMPANY	
	Full year 2020 $'000	**Full year 2019** $'000
Recognised amounts:		
2020 Interim dividend of 5.00 cents	10,713	-
2019 Final dividend of 5.50 cents	11,755	-
2019 Interim dividend of 5.50 cents	-	11,722
2018 Final dividend of 5.50 cents	-	10,178
Total dividend	**22,468**	**21,900**
Issue of shares under the DRP	(3,013)	(2,773)
Net cash outflow	**19,455**	**19,127**
Unrecognised amounts:		
2020 Final dividend of 5.00 cents	10,722	-
2019 Final dividend of 5.50 cents	-	11,755

4. Dividends to shareholders (cont.)

The dividends paid in 2020 and 2019 were fully franked. The 2020 final dividend will be fully franked.

	CONSOLIDATED		COMPANY	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Value of the dividend franking account	101,860	108,083	26,585	36,214

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	
	2020	2019
	$'000	$'000
Sales of goods	1,450,847	1,397,227
Services	42,372	22,725
Total revenue	**1,493,219**	**1,419,952**
Other revenue		
Royalties	7,860	7,215
Dividends	-	15
Other	1,136	1,316
Total other revenue	**8,996**	**8,546**
Other income		
Rental income	1,613	1,422
Profit on sale of investment	-	748
Interest income	309	411
Other	3,028	1,307
Total other income	**4,950**	**3,888**

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 33e for further explanation of the Group's revenue recognition policy.

Revenues of approximately $223,629,000 (2019: $227,302,000) are concentrated in a small number of external customers.

6. Expenses

	CONSOLIDATED	
	2020	2019
	$'000	$'000
(Profit)/loss on disposal of property, plant and equipment	(257)	106
Increase/(decrease) in inventory provisions	1,659	(5,042)
Increase/(decrease) in allowance for impairment of receivables	521	(30)
Depreciation of property, plant and equipment	37,639	35,246
Impairment of tangible assets	-	10,229
Impairment of intangible assets	52	-
Impairment of investments	1,000	-
Amortisation of intangible assets	7,117	5,127
Trade Receivables Facility costs	3,763	1,497
Employee benefit expense:		
- Defined contribution superannuation expense	16,583	16,522
- Other employee benefits expense	210,960	204,685
Total employee benefit expense	**227,543**	**221,207**
Finance costs:		
- Interest on bank loans	8,231	17,788
- Lease liability interest	734	-
- Other finance costs	2,315	2,575
Total finance costs	**11,280**	**20,363**

7. Income tax

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
A. INCOME TAX EXPENSE		
Current tax (expense)	(6,527)	(11,278)
Deferred tax (expense)/benefit from the origination and reversal of temporary differences	(3,529)	6,948
Adjustments recognised in the current year in relation to tax of prior years	279	398
Total income tax expense	**(9,777)**	**(3,932)**

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.

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	31,045	8,379
Tax (expense) at the Australian tax rate of 30% (2019 - 30%)	(9,314)	(2,513)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	700	-
Non-deductible expenses	(1,014)	(1,296)
Other deductible expenses	189	3
	(125)	(1,293)
Tax incentives	374	282
Adjustments in respect of prior year	279	398
De-recognition of previously recognised capital losses	(419)	-
Previously unrecognised capital losses used	209	-
Current year tax losses not recognised	(781)	(806)
Total income tax expense	**(9,777)**	**(3,932)**

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
C. AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but through other comprehensive income in respect of:		
Fair value movement in investments	-	3
Movement in hedging reserve	(3)	(447)
Total amount recognised through other comprehensive income	**(3)**	**(444)**

7. Income tax (cont.)

	CONSOLIDATED	
	2020 $'000	**2019** $'000
D. AMOUNTS RECOGNISED THROUGH EQUITY		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but through equity in respect of:		
Lease transition adjustment	533	-
Share issue costs	-	940
Total amount recognised through equity	**533**	**940**

E. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	**Opening balance** $'000	**Reclassification** $'000	**Charged to income** $'000	**Charged to equity** $'000	**Closing balance** $'000
Year ending 30 June 2020					
Deferred tax assets					
Doubtful debts	37	-	167	-	204
Inventories	2,014	-	882	-	2,896
Sundry accrued expenses	5,585	-	(1,234)	-	4,351
Black hole expenditure	2,440	-	401	-	2,841
Employee provisions	14,532	-	1,471	-	16,003
Leases	-	42	(54)	533	521
Share issue costs	1,112	-	(345)	-	767
Prepayments	-	-	23	-	23
Fair value of derivatives	-	-	22	(3)	19
Tax losses	1,258	4,509	-	-	5,767
Total deferred tax assets	26,978	4,551	1,333	530	33,392
Deferred tax (liabilities)					
Property, plant and equipment	(16,298)	-	(139)	-	(16,437)
Brand names	(42,530)	-	-	-	(42,530)
Software	(6,354)	-	(4,857)	-	(11,211)
Prepayments	(41)	-	41	-	-
Fair value of derivatives	(139)	-	139	-	-
Other	(1,443)	-	(46)	-	(1,489)
Total deferred tax (liabilities)	(66,805)	-	(4,862)	-	(71,667)
Total deferred tax	**(39,827)**	**4,551**	**(3,529)**	**530**	**(38,275)**

7. Income tax (cont.)

	Opening balance* $'000	Acquisition* $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Period ending 30 June 2019					
Deferred tax assets					
Doubtful debts	37	-	-	-	37
Inventories	2,302	(616)	328	-	2,014
Sundry accrued expenses	154	345	5,086	-	5,585
Black hole expenditure	1,738	-	702	-	2,440
Employee provisions	13,007	1,088	437	-	14,532
Share issue costs	508	-	(336)	940	1,112
Fair value of derivatives	319	-	-	(319)	-
Tax losses	1,258	-	-	-	1,258
Total deferred tax assets	19,323	817	6,217	621	26,978
Deferred tax (liabilities)					
Property, plant and equipment	(7,443)	(10,953)	2,098	-	(16,298)
Brand names	(42,530)	-	-	-	(42,530)
Prepayments	(2,876)	-	2,835	-	(41)
Fair value of derivatives	-	-	(11)	(128)	(139)
Financial assets at fair value through other comprehensive income	(3)	-	-	3	-
Other	(3,300)	(306)	(4,191)	-	(7,797)
Total deferred tax (liabilities)	(56,152)	(11,259)	731	(125)	(66,805)
Total deferred tax	**(36,829)**	**(10,442)**	**6,948**	**496**	**(39,827)**

Unused tax losses for which no deferred tax asset has been recognised as at 30 June 2020 are $17,691,039, the potential tax benefit of this at 30% is $5,307,312. Unused capital losses for which no deferred tax asset has been recognised as at 30 June 2020 are $13,743,886, the potential tax benefit of this at 30% is $4,123,166.

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.

	CONSOLIDATED	
	2020 $'000	**2019** $'000
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	(12,330)	(13,264)
Total income taxes (paid)	**(12,330)**	**(13,264)**

* See note 32 for details about restatements.

8. Trade and other receivables

	CONSOLIDATED	
	2020 $'000	**2019** $'000
Current assets		
Trade receivables	31,508	89,205
Allowance for impairment of receivables	(602)	(81)
Net trade receivables	30,906	89,124
Goods and services tax (GST) receivable	7,665	14,732
Prepayments	17,302	18,757
Accrued revenue	11,990	5,550
Trade Receivables Facility continuing involvement asset	18,660	21,955
Amounts receivable under Trade Receivables Facility	14,702	8,999
Other debtors	16,066	20,613
Advances to suppliers	128	180
Total current trade and other receivables	117,419	179,910
Non-current assets		
Prepayments	2,053	14,028
Total non-current trade and other receivables	2,053	14,028
Total trade and other receivables	**119,472**	**193,938**

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 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 33.

Advances to suppliers are prepayments for milk to assist with short-term working capital. The advances have a maximum repayment term of 6 months and interest is charged at 4.58% (2019: 7.25%).

Non-current prepayments relate to milk supplier premium payments.

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

During the 2019 financial year, the Group entered into 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. The Trade Receivables Facility is a fully committed facility and was extended to 31 January 2022 in December 2019. The funded value of the Group's Trade Receivables Facility was $153.3 million as at 30 June 2020 (2019: $188.6 million). 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.

9. Derivative financial instruments and other financial assets

	CONSOLIDATED 2020 $'000	2019 $'000
Current assets		
Foreign currency forwards – cash flow hedges	824	754
Foreign currency forwards – fair value hedges	485	-
Total current derivative financial instruments	1,309	754
Non-current assets		
Financial assets at fair value through other comprehensive income (FVOCI) - unlisted equity securities	716	716
Total non-current financial assets	716	**716**
Total financial assets	**2,025**	**1,470**

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

10. Inventories

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 2020 $'000	Restated 2019 $'000
Raw materials, work in progress and stores	134,114	155,130
Finished goods	123,258	117,495
Carrying amount of inventories at lower of cost or net realisable value	**257,372**	**272,625**

11. Property, plant and equipment

	CONSOLIDATED 2020 $'000	2019 $'000
Land and buildings		
At cost	207,918	200,965
Accumulated depreciation	(44,029)	(39,288)
Total land and buildings	163,889	161,677
Plant and equipment		
At cost	619,707	567,793
Accumulated depreciation	(347,301)	(321,880)
Total plant and equipment	272,406	245,913
Right-of-use assets		
At cost	15,559	-
Accumulated depreciation	(6,791)	-
Total right-of-use assets	8,768	-
Construction in progress	9,661	35,741
Total property, plant and equipment	**454,724**	**443,331**

11. Property, plant and equipment (cont.)

The movements in property, plant and equipment are:

Consolidated	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Right-of-use assets $'000	Total $'000
Year ending 30 June 2020					
Balance at the beginning of the financial year	35,741	161,677	245,913	-	443,331
Change in accounting policy (note 33)	-	-	-	6,927	6,927
Restated balance at the beginning of the financial year	35,741	161,677	245,913	6,927	450,258
Right-of-use asset additions	-	-	-	4,630	4,630
Capital expenditure	42,170	-	-	-	42,170
Disposals	-	(3,326)	(1,232)	(137)	(4,695)
Depreciation	-	(5,334)	(29,653)	(2,652)	(37,639)
Transfers	(68,250)	10,872	57,378	-	-
Balance at the end of the financial year	**9,661**	**163,889**	**272,406**	**8,768**	**454,724**
Year ending 30 June 2019					
Balance at the beginning of the financial year	20,639	133,697	169,249	-	323,585
Acquisitions through business combinations	-	30,553	92,480	-	123,033
Capital expenditure	42,689	-	-	-	42,689
Reclassification	-	-	(156)	-	(156)
Disposals	-	-	(345)	-	(345)
Depreciation	-	(5,183)	(30,063)	-	(35,246)
Impairment	-	-	(10,229)	-	(10,229)
Transfers	(27,587)	2,610	24,977	-	-
Balance at the end of the financial year	**35,741**	**161,677**	**245,913**	**-**	**443,331**

12. Intangible assets

	CONSOLIDATED 2020 $'000	2019 Restated $'000
Brands	140,405	140,405
Water rights	5,601	5,601
Headwork utilities rights	934	956
Gene pool	1,180	1,467
Software	53,530	51,185
Goodwill	346,486	346,486
Total intangible assets	**548,136**	**546,100**

Consolidated	Brands $'000	Software $'000	Water Rights $'000	Goodwill $'000	Other $'000	Total $'000
Year ending 30 June 2020						
Balance at the beginning of the financial year	140,405	51,185	5,601	346,486	2,423	546,100
Additions	-	9,099	-	-	106	9,205
Amortisation	-	(6,702)	-	-	(415)	(7,117)
Impairment	-	(52)	-	-	-	(52)
Balance at the end of the financial year	**140,405**	**53,530**	**5,601**	**346,486**	**2,114**	**548,136**
Year ending 30 June 2019						
Balance at the beginning of the financial year	140,405	35,055	5,601	229,446	956	411,463
Acquisitions through business combinations*	-	337	-	117,040	-	117,377
Additions	-	20,726	-	-	1,505	22,231
Reclassification	-	156	-	-	-	156
Amortisation	-	(5,089)	-	-	(38)	(5,127)
Balance at the end of the financial year	**140,405**	**51,185**	**5,601**	**346,486**	**2,423**	**546,100**

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.

* See note 32 for details about restatements.

12. Intangible assets (cont.)

Headwork utilities rights

Headwork utilities rights are finite life identifiable intangible assets relate to the Group 's right to access the Bega Valley Shire Council municipal wastewater system.

Gene pool intellectual rights

PCA conducts a peanut research and development programme focused on developing improved seed varieties for growers. The programme endeavours to improve the desirable attributes of seed varieties provided to growers, with the overall objective to improve the quality of PCA's peanuts and to minimise costs to production. The rights are finite life identifiable intangible assets and include intellectual property relating to cross breeding peanut seed varieties for optimal commercial use, and plant breeder's rights for successful varieties.

Software

Purchased and internally developed software assets are capitalised where there is an identifiable asset that will generate future economic benefits through revenue, supporting effective management and decision making or cost savings.

Ongoing software related costs are capitalised if they extend the useful life or enhance the functionality of the software asset.

Software assets are amortised on a straight-line basis over their estimated useful lives, being three to 10 years and are tested for impairment when an indicator of impairment exists.

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 $229.4 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 'fair value less cost of disposal' approach.

In calculating the recoverable amount of the Bega Foods CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2021 to FY2025. 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 FY2020 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 FY2021. 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 2020 and as a result no impairment was required.

12. Intangible assets (cont.)

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 2020.

Koroit impairment assessment

The Group has identified the Koroit business, acquired in August 2018, to be a CGU. This CGU includes goodwill of $117.0 million. This CGU represents the dairy processing facility located in Western Victoria which was acquired from Saputo in August 2018. The Koroit CGU produces dairy products which are sold domestically and internationally.

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 Koroit CGU has been determined using the 'fair value less cost of disposal' approach.

In calculating the recoverable amount of the Koroit CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2021 to FY2025. 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 1.5% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 6.5%
- continuing investment in milk pricing systems and strategy to support growth in milk intake
- lactoferrin expansion to support a long term lactoferrin supply agreement
- In FY2020 the CGU experienced increased milk prices, the impact of which was more than offset by improved product mix and new customer contracts. The CGU's new lactoferrin plant is expected to contribute strongly over the forecast period, having commenced production at the end of FY2020. Milk pricing and volumes have been assumed to reduce from FY2020 levels in FY2021 with moderate growth in milk volumes thereafter.

Using the above assumptions, the recoverable amount was not less than the carrying value of the Koroit CGU as at 30 June 2020 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
Forecast milk intake growth	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 Koroit CGU being lower than its carrying value as at 30 June 2020.

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

13. Trade and other payables

	CONSOLIDATED	
	2020 $'000	Restated 2019 $'000
Trade payables	201,812	195,284
Deferred income	1,364	1,853
Accrued charges and sundry creditors	31,553	55,785
Trade Receivables Facility continuing involvement liability	18,660	21,955
Total trade and other payables	**253,389**	**274,877**

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.

14. Borrowings

	CONSOLIDATED	
	2020 $'000	2019 $'000
Current - at amortised cost		
Lease liabilities	2,978	13
Total current borrowings	2,978	13
Non-current - at amortised cost		
Secured term loans	248,000	317,000
Lease liabilities	8,290	-
Borrowing costs	(740)	(942)
Total non-current borrowings	255,550	316,058
Total borrowings	**258,528**	**316,071**

For further details on borrowings and facilities, see note 21

15. Derivative financial instruments – liabilities

	CONSOLIDATED	
	2020 $'000	2019 $'000
Current liabilities		
Foreign currency forwards - cash flow hedges	48	175
Foreign currency forwards - fair value hedges	13	-
Total derivative financial instruments - liabilities	**61**	**175**

For further details on derivatives, see note 21.

16. Provisions

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
Current liabilities		
Employee benefits	49,546	48,996
Total current provisions	49,546	48,996
Non-current liabilities		
Employee benefits	2,879	1,773
Total non-current provisions	2,879	1,773
Total provisions	**52,425**	**50,769**

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 $49,546,000 (2019: $48,996,000) is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months:

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
Current leave obligations expected to be settled after 12 months	11,930	11,892

17. Share capital

A. Share capital

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
Share capital - ordinary shares fully paid	**480,507**	**477,494**

B. Movement in share capital value and number of shares

	Ordinary shares Number '000	**Ordinary shares** $'000
Ordinary shares on issue at 1 July 2018	185,055	274,862
Shares issued under Institutional Placement	27,758	199,859
Shares issued under Share Purchase Plan	318	2,259
Shares issued under Dividend Reinvestment Plan	603	2,773
Share issue transaction costs, net of tax	-	(2,259)
Ordinary shares on issue at 30 June 2019	213,734	477,494
Ordinary shares on issue at 1 July 2019	213,734	477,494
Shares issued under Dividend Reinvestment Plan	703	3,013
Ordinary shares on issue at 30 June 2020	214,437	480,507

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

18. Reserves

A. Reserves

	CONSOLIDATED	
	2020 $'000	**2019** $'000
Share-based payment reserve	416	1,196
Capital profits reserve	33,959	33,959
Hedging reserve	(949)	272
Transactions with non-controlling interests reserve	(12,567)	(12,567)
Total reserves	**20,859**	**22,860**

B. Nature and purpose of reserves

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

The capital profits reserve is 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 33.

The fair value reserve is used to record gains or losses on fair value of investments classified as Financial assets at fair value through other comprehensive income.

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.

19. Notes to the consolidated statement of cash flows

	CONSOLIDATED	
	2020 $'000	Restated 2019 $'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	22,882	28,760
Balance per statement of cash flow	**22,882**	**28,760**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	21,268	4,447
Adjustments for non-cash, investing and financing items:		
Depreciation of property, plant and equipment	37,639	35,246
Amortisation of intangible assets	7,117	5,127
(Profit)/loss on sale of property, plant and equipment	(257)	106
(Profit) on sale of shares in listed companies	-	(748)
Acquisition related costs	-	11,019
Impairment of tangible assets	-	10,229
Impairment of investments	1,000	-
Impairment of intangible assets	52	-
Non-cash employee (benefit)/expense - share-based payments	(780)	688
Fair value adjustment to derivatives	(2,413)	(870)
Interest income received and receivable	(309)	(411)
Dividend received and receivable	-	(15)
Share of net profit of joint venture	(62)	(323)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other debtors and GST recoverable	61,035	54,930
Inventories	15,253	(35,641)
Prepayments	13,427	(21,113)
Current and deferred tax assets	(2,030)	(2,902)
Increase/(decrease) in liabilities:		
Trade and other payables	(14,865)	45,286
Provision for income taxes payable	-	(6,736)
Changes in provisions	1,656	1,953
Net cash flow from operating activities	**137,731**	**100,272**

Risk

20. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the 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 10 - inventories, note 12 - intangible assets and note 13 - trade and other payables.

21. Financial risk management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk 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 are used to manage these risks.

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

21. 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 '000	Contract amount in foreign currency '000	Weighted average forward rate	Market value assets '000	Market value liabilities '000
At 30 June 2020					
Cash flow hedges					
US Dollar	64,299	42,230	0.6856	824	-
Euro	2,684	1,618	0.6105	-	(35)
Japanese Yen	2,236	165,842	73.7603	-	(13)
Fair value hedges					
Euro	(4,273)	(2,598)	0.6097	-	(13)
US Dollar	(45,583)	(30,727)	0.6802	485	-
At 30 June 2019					
Cash flow hedges					
US Dollar	97,172	67,952	0.6994	431	-
Fair value hedges					
Euro	(2,316)	(1,459)	0.6299	49	-
Japanese Yen	4,119	313,629	76.1470	-	(55)
New Zealand Dollar	(246)	(279)	1.0708	21	-
US Dollar	(7,081)	(4,768)	0.7152	263	-

	CONSOLIDATED			
	Sales 2020 $'000	Purchases 2020 $'000	Sales 2019 $'000	Purchases 2019 $'000
Foreign exchange forward contracts				
Change in discounted spot value	2,384	(1,136)	320	388
Change in value of hedged item	(2,301)	992	167	(52)
Maturities	Jul 20 to Feb 21	Jul 20 to Feb 21	Jul 19 to Feb 20	Jul 19 to Dec 19

Group sensitivity

The Group sensitivity for cash flow exposures is based on the financial instruments held on 30 June 2020, 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 2019 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The Group sensitivity is detailed in the following table:

	CONSOLIDATED	
	2020 $'000	2019 $'000
Equity		
AUD$ strengthens 10% - increase	2,833	6,184
AUD$ weakens 10% - (decrease)	(3,463)	(7,558)

21. 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 2019 or 2020 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 2020 and 2019.

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

	CONSOLIDATED	
	2020 $'000	2019 $'000
Fixed rate instruments		
Assets		
Vat and supplier loans	128	180
Liabilities		
Leases	(11,268)	(13)
Variable rate instruments		
Assets		
Cash and cash equivalents	22,882	28,760
Liabilities		
Bank overdrafts and loans	(247,260)	(316,058)
Net exposure to interest rate risk on variable rate instruments	**(224,378)**	**(287,298)**

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

Interest rate sensitivity

At 30 June 2020, 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 $2,082,000 higher/(lower) (2019: $3,171,000 higher/(lower)).

B. Credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 8 and note 9. For some trade receivables, the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit that can be called upon if the counterparty is in default under the terms of the agreement. In addition, the Group obtains credit insurance over export debtors and some Australian customers.

The maximum exposure to credit risk is as follows:

	CONSOLIDATED	
	2020 $'000	**2019** $'000
Cash and cash equivalents	22,882	28,760
Trade receivables	30,906	89,124
Accrued revenue	11,990	5,550
Other receivables	23,731	35,345
Prepayments	19,355	32,785
Advances to farmers	128	180
Fair value derivatives	1,309	754
Total credit risk exposure	**110,301**	**192,498**

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	
	2020 $'000	**2019** $'000
Not past due	27,100	74,469
Past due 0-30 days	3,340	8,608
Past due over 30 days	1,068	6,128
Trade receivables at 30 June	**31,508**	**89,205**

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.

21. Financial risk management (cont.)

D. Financing arrangements

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

	CONSOLIDATED	
	2020 $'000	**2019** $'000
Undrawn facilities expiring within one year	100,000	100,000
Undrawn facilities expiring beyond one year	168,500	124,500
Drawn facilities	248,000	317,000
Total facilities	**516,500**	**541,500**
Total facilities are represented by:		
Syndicated Facility - Revolving Cash Advance Facility maturing 31 August 2021	70,000	70,000
Syndicated Facility - Revolving Cash Advance Facility maturing 31 August 2021	140,000	140,000
Syndicated Facility - Revolving Cash Advance Facility maturing 30 September 2022	100,000	125,000
Syndicated Facility - Term Facility maturing 30 September 2022	100,000	100,000
Inventory Facility	100,000	100,000
Overdraft Facility	6,500	6,500
Total facilities	**516,500**	**541,500**

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 $310 million (with maturity dates between 31 August 2021 and 30 September 2022) 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 2021) and is not subject to cross-charges or cross-guarantees, except as disclosed in note 23.

The Syndicated Debt Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited, Tatura Milk Industries Pty Ltd and Peanut Company of Australia Pty Ltd.

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

i. the leverage ratio is not greater than 3.75 times for June 2020 to September 2020, reducing to 3.50 times for December 2020 and reducing to 3.00 times from March 2021 and beyond;

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

iii. shareholder funds must be equal or greater than $450 million.

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

21. 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 $'000	1-2 years $'000	2-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2020						
Non-derivatives						
Lease liabilities	(3,470)	(3,153)	(5,580)	(418)	(12,621)	(11,268)
Secured bank loans	(6,212)	(53,346)	(201,294)	-	(260,852)	(247,260)
Trade and other payables	(253,389)	-	-	-	(253,389)	(253,389)
Derivatives						
Inflows	43,999	-	-	-	43,999	-
Outflows	(42,863)	-	-	-	(42,863)	(61)
Total financial liabilities	**(261,935)**	**(56,499)**	**(206,874)**	**(418)**	**(525,726)**	**(511,978)**
At 30 June 2019 (restated)						
Non-derivatives						
Lease liabilities	(13)	-	-	-	(13)	(13)
Secured bank loans	(32,642)	(202,515)	(92,354)	-	(327,511)	(316,058)
Trade and other payables	(274,877)	-	-	-	(274,877)	(274,877)
Derivatives						
Inflows	31,848	-	-	-	31,848	-
Outflows	(32,235)	-	-	-	(32,235)	(572)
Total financial liabilities	**(307,919)**	**(202,515)**	**(92,354)**	**-**	**(602,788)**	**(591,520)**

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).

21. 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 $'000	Level 3 $'000	Total $'000
At 30 June 2020			
Assets			
Foreign currency forwards - cash flow hedges	824	-	824
Foreign currency forwards - fair value hedges	485	-	485
Financial assets at fair value through other comprehensive income (FVOCI) - unlisted equity securities	-	716	716
Total assets	**1,309**	**716**	**2,025**
Liabilities			
Foreign currency forwards - cash flow hedges	(48)	-	(48)
Foreign currency forwards - fair value hedges	(13)	-	(13)
Total liabilities	**(61)**	**-**	**(61)**
At 30 June 2019			
Assets			
Foreign currency forwards - cash flow hedges	754	-	754
Financial assets at fair value through other comprehensive income (FVOCI) - unlisted equity securities	-	716	716
Total assets	**754**	**716**	**1,470**
Liabilities			
Foreign currency forwards - cash flow hedges	(175)	-	(175)
Total liabilities	**(175)**	**-**	**(175)**

22. Capital risk management

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

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

	CONSOLIDATED	
	2020 $'000	**Restated 2019** $'000
Net debt: borrowings (excluding borrowing costs) net of cash at bank	236,386	288,240
Total equity	814,039	815,014
Net debt to equity ratio	**29%**	**35%**

Group structure

23. Parent entity financial information

A. Summary financial information

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

	BEGA CHEESE	
	2020 $'000	Restated 2019 $'000
Current assets	423,952	501,937
Total assets	1,406,403	1,475,796
Current liabilities	(507,386)	(505,874)
Total liabilities	(805,260)	(867,207)
Net assets	**601,143**	**608,589**
Shareholder's equity		
Issued capital of parent entity	481,077	478,064
Reserves		
Share-based payment reserve	416	1,196
Capital profits reserve	32,565	32,565
Hedging reserve	-	220
Retained earnings	87,085	96,544
Total equity	**601,143**	**608,589**
Profit after tax for the year	13,180	67,607
Total comprehensive income	12,959	67,820

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 25.

C. Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019 except as disclosed in note 26.

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

As at 30 June 2020, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $3,797,000 (2019: $23,803,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

24. Subsidiaries and joint arrangements

	Country of incorporation	Nature of relationship	2020 % of ownership interest	2019 % of ownership interest
Tatura Milk Industries Pty Ltd	Australia	Subsidiary	100	100
Bega Cheese Investments Pty Ltd	Australia	Subsidiary	100	100
Peanut Company of Australia Pty Ltd	Australia	Subsidiary	100	100
180 Nutrition Pty Ltd	Australia	Subsidiary	61	61
Bemore Partnership	Australia	Joint Operation	-	50
Capitol Chilled Foods (Australia) Pty Ltd	Australia	Joint Venture	25	25
Hummingbird Superfoods Pty Ltd	Australia	Associate	20	-

A. Interest in joint operation

Bemore Partnership

The Company held a 50% interest in a joint arrangement called the Bemore Partnership. The partnership was wound up on 24 February 2020. Accounting policies applied for the Bemore Partnership are described in note 33b.

B. 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. The Group financial statements include the following results of the joint venture:

	CCFA	
	2020 $'000	2019 $'000
Share of net profit of joint venture	62	323
Investments accounted for using the equity method	1,403	1,341

Accounting policies applied for the joint venture are described in note 33b.

25. Closed group disclosure

Bega Cheese, Tatura Milk, Bega Cheese Investments Pty Ltd (BCI) and Peanut Company of Australia Pty Ltd (PCA) are all party to a deed of cross guarantee under which each company guarantees the debts of the other. These companies represent a "closed Group" for the purposes of the Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Bega Cheese Limited, they also represent the "extended closed Group". By entering into the deed, Tatura Milk, BCI and PCA have been relieved from the requirement to prepare a financial report and Directors' report under Instrument 2016/785, issued by the Australian Securities and Investments Commission.

Unrecognised items

26. Contingent liabilities

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 13). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. In addition, Bega Cheese is currently subject to separate legal actions by each of Kraft Heinz and Fonterra (refer to 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 2020. The Group has bank guarantees as at 30 June 2020 totalling $6,138,970 (2019: $5,872,000).

27. Commitments

A. Capital commitments

	CONSOLIDATED	
	2020 $'000	**2019** $'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment - payable within one year	4,703	19,394
Land and buildings - payable within one year	-	6,482

B. Lease commitments

From 1 July 2019, the Group recognises lease commitments as lease liabilities under the new accounting standard AASB 16. Lease commitments as at 30 June 2019 have been reconciled to the opening lease liability adjustment. Refer to note 33a.

28. Subsequent events

The financial impact of the transactions set out below which occurred after 30 June 2020 has not been recognised in these financial statements.

A. Dividend

On 27 August 2020, the Directors declared a final fully franked dividend of 5.0 cents per share, which represents a distribution of $10,722,000.

The Group's Dividend Reinvestment Plan (DRP) will be activated for the FY2020 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 FY2020 final fully franked dividend to be paid on 7 October 2020 must be recorded by the registry by 5:00 pm on 10 September 2020 to be effective for that dividend.

B. Restructure

During July 2020, the Group announced that following the ongoing organisation and process review, there would be 35 redundancies across the business. In addition, the Group intends to implement an optimisation strategy at our processed cheese making facilities at Strathmerton and Ridge Street Bega with a further 63 roles to become redundant during the period of August to October 2021. The Group expects the restructuring associated with the reduction in positions to cost approximately $5.1 million for FY2021.

Further details

29. Related party transactions

A. Terms and conditions of related party transactions

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

B. Related party transactions with group entities

Details of transactions between the Group and other related parties are disclosed below.

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

	CONSOLIDATED	
	2020 $	2019 $
Sales made to CCFA	8,114,217	7,507,924
Rent paid by CCFA to Bega Cheese	237,468	233,736
Amounts payable by CCFA to Bega Cheese at period end	1,914,156	1,166,039

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

C. Key management personnel remuneration and transactions

	CONSOLIDATED	
	2020 $	2019 $
Short-term employee benefits	2,879,082	2,631,717
Post-employment benefits	146,965	129,394
Other long-term employee benefits	107,975	201,252
Share-based payments	(193,881)	62,856
Total employee benefits	**2,940,141**	**3,025,219**

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

	CONSOLIDATED	
	2020 $	2019 $
Payments made by the Group during the year	8,440,785	7,150,526
Amounts outstanding at year end	521,141	543,743

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

30. Remuneration of auditors

	CONSOLIDATED 2020 $	CONSOLIDATED 2019 $
Audit services		
PwC Australia - Audit and review of financial statements	870,261	917,500
Non-audit services		
PwC Australia - Other services	38,250	80,384

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 and prior years PwC provided non-audit services relating to GST compliance, tax compliance and share schemes.

31. Share-based payments

Expenses arising from Bega Cheese Limited Long-Term Incentive Plan

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 2018-2020 LTI Plan (2020 Plan), the 2019-2020 LTI Plan (2021 Plan) and the 2020-2022 LTI Plan (2022 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 2020 were 349,081 (2019: 261,176). The 2020 Plan did not vest, resulting in a write-back of amounts expensed in previous years.

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

	CONSOLIDATED 2020 $'000	CONSOLIDATED 2019 $'000
Entitlements due under employee share schemes		
(Benefit)/expense in relation to Long Term Incentive Plan	(780)	688
Total employee share scheme (benefit)/expense	**(780)**	**688**

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

32. Restatements

In the 30 June 2019 financial statements, Bega did not appropriately calculate its costs of sales, resulting in an understatement of trade and other payables of $9.0 million, an overstatement of inventories of $1.5 million together with the related tax impact of $3.2 million at 30 June 2019. The error has been corrected by restating the 30 June 2019 trade and other payables and inventories balances within these financial statements and a corresponding adjustment to retained earnings.

Consolidated balance sheet (extracts)	30 June 2019 (Previously stated) $'000	Increase/ (Decrease) $'000	30 June 2019 (Restated) $'000
Inventories	274,146	(1,521)	272,625
Current tax assets	6,008	3,160	9,168
Trade and other payables	265,866	9,011	274,877
Net assets	**822,836**	**(7,372)**	**815,014**
Retained earnings*	322,032	(7,372)	314,660
Total equity	**822,386**	**(7,372)**	**815,014**

The restatement does affect the Statement of Comprehensive Income for the 12 month period to 30 June 2019, resulting in an increase in cost of sales of $10.5 million to $1,140.2 million and a decrease in the current tax expense of $3.2 million to $3.9 million.

Consolidated statement of comprehensive income and segment information (extracts)	30 June 2019 (Previously stated) $'000	Increase/ (Decrease) $'000	30 June 2019 (Restated) $'000
Revenue	1,419,952	-	1,419,952
Cost of sales	(1,129,674)	(10,532)	(1,140,206)
Gross profit	290,278	(10,532)	279,746
EBITDA	89,465	(10,532)	78,933
EBIT	38,863	(10,532)	28,331
Profit before income tax	18,911	(10,532)	8,379
Income tax expense	(7,092)	3,160	(3,932)
Profit for the period attributable to owners of Bega Cheese Limited	11,819	(7,372)	4,447
Basic earnings per share (cents)	5.7	(3.6)	2.1
Diluted earnings per share (cents)	5.7	(3.6)	2.1

Basic and diluted EPS has been restated for 30 June 2019 in these financial statements. The amount of the correction for basic and diluted earnings per share was a decrease of 3.6 cents.

* The Group has reassessed certain deferred tax liabilities relating to acquired assets from business acquisitions in the year ending 30 June 2019 and prior years increasing deferred tax liabilities by $14.5 million. Due to the profile of the relevant acquisitions, part of the adjustment ($10.9 million) is reflected against goodwill relating to the acquisition in the year ending 30 June 2019, with the remainder ($3.6 million) through opening balance retained earnings as at 1 July 2018. There was no impact to the Statement of Comprehensive Income.

33. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bega Cheese and 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 2020. 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 2019.

Adoption of new standards

On 1 July 2019, the Group adopted AASB 16 Leases. 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.

AASB 16 Leases

On adoption of this new leasing standard, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. Under the new standard the Group is required to recognise a 'right-of-use' (ROU) asset and a lease liability for all identified leased assets in the balance sheet. Operating lease payments were replaced by a straight-line depreciation charge on the ROU Asset and a finance charge calculated on the present value of the lease liability, over the lease term. The principal component of lease payments have been reclassified in the Consolidated Statement of Cash Flows from operating activities to financing activities.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 6.55% for leases with greater than a 5-year term and 4.31% for all remaining leases.

The following table provides a reconciliation of the operating lease commitments disclosed in the 2019 Annual Report to the total lease liability recognised at 1 July 2019:

	$m
Lease Commitments as at 30 June 2019	**5.0**
Add: contracts reassessed as lease contracts	2.0
Add: amount lease liability >than PV of operating lease due to extended term recognised under new standard	4.5
(Less): short-term leases recognised on a straight-line basis as an expense	(0.7)
(Less): discounting	(1.4)
Lease liability recognised as at 1 July 2019	**9.4**

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied.

33. Summary of significant accounting policies (cont.)

The recognised right-of-use assets relate to the following types of assets:

	1-Jul-19 $m	30-Jun-20 $m
Asset Type		
Properties	4.8	6.6
Equipment	0.9	1.2
Motor Vehicles	1.2	1.0
Total right-of-use assets	**6.9**	**8.8**

Depreciation charge of right-of-use assets

	2020 $m
Asset Type	
Properties	1.6
Equipment	0.7
Motor Vehicles	0.4
Total right-of-use asset depreciation	**2.7**

The Group adopted the new standard using the modified retrospective approach at the initial application (1 July 2019), without restating the comparative period. Upon initial application an adjustment for the difference between the right-of-use asset and lease liability was recognised in retained earnings. Adjustments in respect to deferred tax and deferred rent were also made on adoption.

The Group has applied practical expedients on transition as permitted by the standard for non-lease components, low-value and short-term exemptions applied to the remaining term, portfolios formed for forklifts and motor vehicles by location with similar remaining lease term and the weighted average incremental borrowing rate applied to portfolio of leases.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the financial statements are disclosed in note 20. Certain items in the Consolidated Statement of Cash Flows have been reclassified in the prior period to better reflect their nature as investing activities rather than operating activities.

Prior year comparative

The presentation of rental revenue has been changed in the current year to better reflect their nature as rental income in other income. The prior year comparatives have been restated to reflect consistent presentation with the current year.

33. Summary of significant accounting policies (cont.)

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 2020 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 operation

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

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

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

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

Joint venture

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

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

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

C. Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Makers. The Chief Operating Decision Makers, who are responsible for allocating resources and assessing performance of the operating 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.

33. 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 overtime 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 at the later of when the sales or usage occurs, and 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.

33. 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. Leases

As a result of adopting AASB 16, the Group's lease accounting policy from 1 July 2019 has been revised.

All leases except for short term or low value leases are recognised on the balance sheet; as a right-of-use lease asset and a corresponding lease liability. Short term (12 months or less) and low value leases will continue to be recognised in the profit or loss as a lease expense.

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.

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.

I. Business combinations

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

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

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

33. Summary of significant accounting policies (cont.)

J. 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 fair value less costs of disposal for impairment testing purposes of the Bega Foods and Koroit CGUs.

The Group uses discounted cash flow modelling to assess the fair value less cost of disposal 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.

K. 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.

L. Trade receivables

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

Collectability of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly.

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.

M. Inventories

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

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

N. Other assets

Other debtors

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.

O. 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 12c for further details.

33. Summary of significant accounting policies (cont.)

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 21. Gains and losses arising from changes in fair value are recognised through other comprehensive income with the exception of impairment losses that are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

P. Derivatives and hedging activities

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

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or administration expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within "revenue". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged items that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or administration expenses.

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

33. Summary of significant accounting policies (cont.)

Q. Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

- buildings, 10 to 40 years
- plant and equipment, 2 to 20 years.

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

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

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

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.

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 33j.

33. Summary of significant accounting policies (cont.)

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

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

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

Capitalised development costs are recorded as intangible assets and will be amortised from the point at which the asset is ready for use using the straight line method over its estimated useful life, being three to 10 years.

Intangible assets acquired in a business combination

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

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

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.

U. Provisions

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

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

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

V. Employee benefits

Short-term obligations

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

33. Summary of significant accounting policies (cont.)

Other long-term employee benefit obligations

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

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

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

Retirement benefit obligations

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

Share-based payments

The fair value of rights granted under the Bega Cheese 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.

33. Summary of significant accounting policies (cont.)

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.

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 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 23 has been prepared on the same basis as the consolidated financial statements, except as set out below:

i. Investments in subsidiaries and joint venture entities

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

ii. Dividend income

Dividends receivable from subsidiaries and joint venture entities are included in Bega Cheese's income statement.

Directors' Declaration

In the Directors' opinion

a. the financial statements and notes set out on pages 40 to 87 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 2020 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 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

Note 33a 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 2020

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 2020 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 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (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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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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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 $2.2 million, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation.
- 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 earnings before interest, tax, depreciation and amortisation because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 2.5% 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.

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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***
The carrying value of goodwill and other indefinite lived intangible assets - Bega Foods & Koroit *(Refer to note 12) $487 million* At the year end, the Group recognised goodwill and indefinite lived intangible assets in relation to the Bega Foods and Koroit cash generating units (CGUs) of $487 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. • The accounting judgement in determining the Group's CGUs following recent acquisitions. • The judgements required by the Group in assessing whether an impairment was required. Key judgements are made in the Group's "fair value less costs to dispose" models (the models used to determine the recoverable amount of each CGU).	We performed the following procedures amongst others: • We obtained the Group's models for the Bega Foods and Koroit CGUs and checked the mathematical accuracy of the calculations. • We considered whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations and internal Group reporting. • We evaluated the Group's cash flow forecasts and the process by which they were developed, with reference to the historical performance of the businesses. • We compared the forecasts in the models to the Board approved budgets. • We were assisted by PwC valuation experts in assessing the methodologies and the main assumptions included in the models. In particular, we compared the discount and long term growth rates used in the models with rates generally observed in the industry. • We assessed key growth assumptions within the models with specific focus on forecast revenue, profit margins and milk intake against historical performance, future strategic plans and other market information. • We assessed the sensitivity of the calculations by varying the key assumptions, using a range of possible rates. We considered the accounting policies and disclosures in note 12 and in note 33 for consistency with Australian Accounting Standards.

Inventory valuation
(Refer to note 10) $257.4 million

This was a key audit matter because:

- The inventory provisioning process is complex and there are different approaches across the Group due to the nature of the inventory.
- Provisioning for quality and obsolescence issues requires judgement around the likely sales volumes, expected future sales and level of quality provisioning required.
- Recent volatility in global commodity prices increases the risk of inventory cost being in excess of its net realisable value.

Amongst other procedures we:

- Read the minutes of Board meetings to identify potential quality issues.
- Discussed quality issues with management and feasibility of plans for re-processing or disposal of inventory.
- Discussed quality claims from customers with management and analysed credit notes and other sales adjustments processed after year end.
- Scanned inventory listings for unusual items, including aged inventory items.
- Analysed a sample of inventory sold subsequent to year-end for evidence of potential net realisable value concerns.
- Considered the adequacy of provisions against inventory in light of the procedures performed above.

Restatement
(Refer to note 32) $10.5 million

In the 30 June 2019 financial statements, the cost of sales was not appropriately calculated, resulting in a $9.0 million understatement of trade and other payables and a $1.5 million overstatement of inventory, together with a related tax impact of $3.2 million at 30 June 2019. This error has been corrected by restating the 30 June 2019 trade and other payables, inventories and current tax asset balances within these financial statements and a corresponding adjustment to retained earnings.

This was considered a key audit matter due to the financial significance of the restatement.

We obtained the Group's calculation of the restatement and performed the following procedures, amongst others:

- Tested the mathematical accuracy and assessed the adequacy of the methodology of the calculations used by the Group to identify and quantify the error.
- Agreed a sample of inputs to the calculation of the error to underlying evidence.
- Obtained account reconciliations for a sample of accounts across the Group as at 30 June 2019 and 31 December 2019 and evaluated whether each reconciliation had been adequately performed.

We considered the adequacy of the disclosure in note 32 in the light of the requirements of Australian Accounting Standards.

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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 2020, 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.

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 17 to 27 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2020 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 2020

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2020:

Distribution of Equity Securities

Holding	Number
1 – 1,000	5,491
1,001 – 5,000	4,623
5,001 – 10,000	1,305
10,001 – 100,000	899
100,001 and over	161
	12,479

There were 933 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	17,866,877	8.3
2	Perpetual Limited	16,179,058	7.5
3	Vinva Investment Management Limited	8,787,619	4.1
4	Dimensional Fund Advisors Limited	7,465,328	3.5
5	Spheria Asset Management Pty Limited	7,027,618	3.3
6	The Vanguard Group, Inc	6,155,175	2.9
7	Vanguard Investments Australia Limited	5,478,410	2.6
8	BlackRock Investments, LLC	4,063,737	1.9
9	Argo Investments Limited	3,568,294	1.7
10	Messrs Roy A & Anthony P Medich	2,742,360	1.3
11	Realindex Investments Pty Limited	2,708,415	1.3
12	Jerang Pty Limited*	2,668,995	1.2
13	IFM Investors Pty Limited	2,203,699	1.0
14	AMP Capital Investors Limited	2,196,695	1.0
15	JL & KD Kimber	2,142,923	1.0
16	BlackRock Investment Management (Australia) Limited	2,042,102	1.0
17	State Street Global Advisors Australia Limited	2,027,678	0.9
18	Mr Richard E Platts	2,020,000	0.9
19	Aljo Pastoral Pty Limited*	2,007,841	0.9
20	Norges Bank Investment Management	1,918,812	0.9
	Total	**101,271,636**	**47.2**

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

Substantial holders

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

Voting rights

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

Corporate Directory

Advisors

Auditor

PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000

Solicitors

Addisons
Level 12, 60 Carrington Street
Sydney NSW 2000

Bankers

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

Westpac Banking Corporation
360 Collins Street
Melbourne VIC 3000

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

Stock Exchange Listing

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

Directors & Company Secretaries

Directors

Barry Irvin
Executive Chairman

Richard Cross
Director

Patria Mann
Independent Director

Raelene Murphy
Independent Director

Terry O'Brien
Independent Director

Richard Parbery
Director

Company Secretaries

Brett Kelly
Colin Griffin

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 Dairy Ingredients

David McKinnon
Executive General Manager Human Resources

Adam McNamara
Executive General Manager Bega Foods

Stephen Rae
Executive General Manager Strategy

Hamish Reid
Executive General Manager Nutritionals

Antonietta Timms
Executive General Manager Operational Excellence

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

Tatura Milk Industries Pty Ltd

Tatura Milk Industries Pty Ltd (Tatura Milk) is a 100% subsidiary of Bega Cheese.

Peanut Company of Australia Pty Ltd

Peanut Company of Australia Pty Ltd (PCA) is a 100% subsidiary of Bega Cheese.

Capitol Chilled Foods (Australia) Pty Ltd

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

180 Nutrition Pty Ltd

180 Nutrition Pty Ltd (180 Nutrition) is a 61% subsidiary of Bega Cheese.

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 2020 and is referred to as FY2020

Our Sites

TOLGA
12 Tostevin Street
Tolga QLD 4882 Australia

KINGAROY
133 Haly Street
Kingaroy QLD 4610 Australia

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

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

TATURA
236 Hogan Street
Tatura VIC 3616 Australia

STRATHMERTON
Murray Valley Highway
Strathmerton VIC 3641 Australia

KOROIT
41 Commercial Road
Koroit VIC 3282 Australia

PORT MELBOURNE
1 Vegemite Way
Port Melbourne VIC 3207 Australia