ASX ANNOUNCEMENT

Bega Cheese Limited

Release of Preliminary Results for the Year Ended 30 June 2022

Attached is Appendix 4E for Bega Cheese Limited for the year ended 30 June 2022.

Brett Kelly
Company Secretary

26 August 2022

For further information please contact

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BEGA CHEESE LIMITED

4E PRELIMINARY FINAL REPORT 30 JUNE 2022

LODGMENT DATE : 26 AUGUST 2022

This financial report does not include all of the notes of the type normally included in the full year statutory accounts. Accordingly, it is recommended that this Report be read in conjunction with the Annual Report for the year ended 30 June 2022 and any public announcements made by Bega Cheese Limited ("Bega Cheese" or "Group") during the year ended 30 June 2022 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

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for a better future

1. Reporting Period

The reporting period for Bega Cheese Limited is the year ended 30 June 2022 with the previous corresponding year to 30 June 2021. The information in this report is based on accounts, which have been audited.

Results for Announcement to the Market

For the year ended 30 June 2022, Bega Cheese Group delivered a statutory profit after tax of $24.2 million.

Consolidated	2022 $m	2021 $m	Change $m	Change %	Up/Down
Statutory Revenue from ordinary activities	3,009.9	2,073.4	936.5	45.2	Up
Statutory EBITDA	149.9	184.5	(34.6)	(18.8)	Down
Statutory Profit after tax	24.2	78.0	(53.8)	(69.0)	Down
Statutory Profit after tax attributable to shareholders	24.2	78.0	(53.8)	(69.0)	Down
	cents	cents	cents	%	Up/Down
Net tangible assets per share	186.1	189.5	(3.4)	(1.8)	Down

	Cents per Security	Franked cents per Security @ 30 % tax
Current Period		
2022 Final dividend - payable	5.50	5.50
2022 Interim dividend - paid	5.50	5.50
Previous Period		
2021 Final dividend - payable	5.00	5.00

	Record Date
Record date for determining entitlements to dividends	
2022 Final dividend	1 September 2022
Date of payment of dividends	
2022 Final dividend	23 September 2022

Further details of the FY2023 financial position, performance and cash flows are set out in the 2022 Annual Report, which is provided together with this 4E Preliminary Final Report.

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2. Dividend Reinvestment Plan

Bega Cheese's Dividend Reinvestment Plan (DRP) will be activated for the FY2022 final fully franked dividend. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Shares allocated under the DRP will be derived from new issued ordinary shares. The shares issued rank pari passu with other ordinary shares already on issue. The allocation price will be determined in accordance with the DRP rules as the arithmetic average of the daily volume weighted average market price of all Bega Cheese shares sold through a normal trade on the ASX trading system over the five business days commencing on the day of the record date.

A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the FY2022 final fully franked dividend to be paid on 23 September 2022 must be recorded by the registry by 5:00 pm on 1 September 2022 to be effective for that dividend.

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Bega Cheese Limited

2022 ANNUAL REPORT

creating great food for a better future

INNOVATION SPOTLIGHT

HELPING EVERYBODY ENJOY MILK

Pura Milk Lactose Free and Farmers Union Iced Coffee Lactose Free

Innovating for a better future means understanding the needs of consumers who can't enjoy the products we make from milk.

44% of Australians are affected by lactose malabsorption.[1] Bega helps them enjoy dairy with easier to digest, lactose-free milk products with the same great taste as our regular products.

Lactose free products have been launched under two of our major dairy brands in South Australia – Pura Full Cream and Light Start milks and Farmers Union Iced Coffee.

1. Data Source: Christian Løvold Storhaug, Svein Kjetil Fosse, and Lars T Fadnes, "Country, Regional, and Global Estimates for Lactose Malabsorption in Adults: A Systematic Review and Meta-Analysis," thelancet.com, Oct. 1, 2017.

Contents

Our Purpose

CREATING GREAT FOOD FOR A BETTER FUTURE

Our purpose helps connect our people, customers, consumers, suppliers and the communities in which we operate. It helps guide strategy and decision-making and informs our values and behaviours.

We are proud of our heritage as an iconic Australian business with strong connections to agriculture and a passion for creating great food.

To deliver on our purpose for consumers we must anticipate consumer needs and food trends. The recent product launches featured in this report showcase how we innovate products to create great food for a better future.


Bega
Simply Nuts
NATURAL PEANUT BUTTER
CRUNCHY DARK ROAST


100% Aussie Milk
PURA
original


Flippin' Good


Bega
STRONG & BITEY


THE JUICE BROTHERS
Orange


dare
ICED COFFEE
DOUBLE ESPRESSO


HAPPi
WOMEN'S
Daily Iron+
Lactoferrin
Gentle on stomach
Daily use


BARTY


Dairy Farmers
Thick & Creamy
CLASSIC VANILLA
YOGHURT
150g

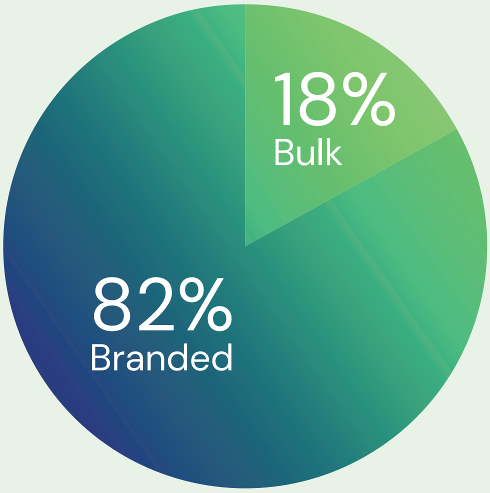
Performance Highlights

Revenue

The Bega Cheese Group generated top-line revenue of $3.01 billion in FY2022, which is 45% higher than FY2021. With a full year of Bega Dairy and Drinks, Bega Cheese achieved its goal of having at least 80% of all revenue through branded products, finishing the year with 82% of sales derived from branded business (73% in FY2021).

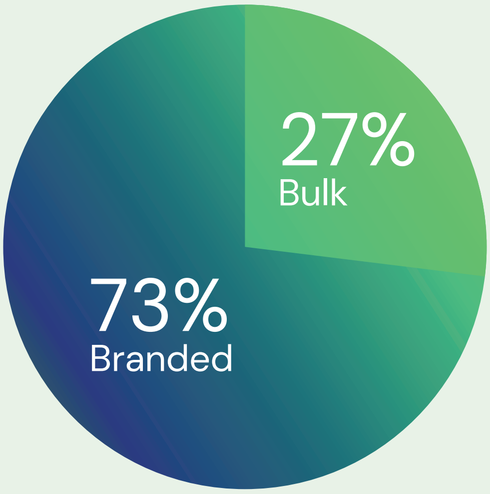
FY2022

$3.01 billion



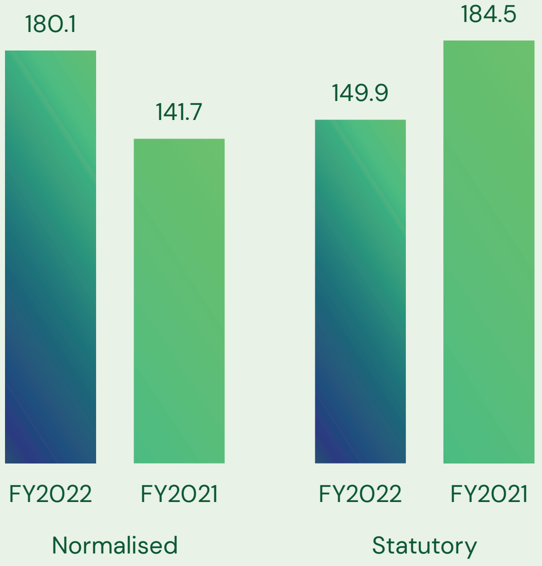
FY2021

$2.07 billion

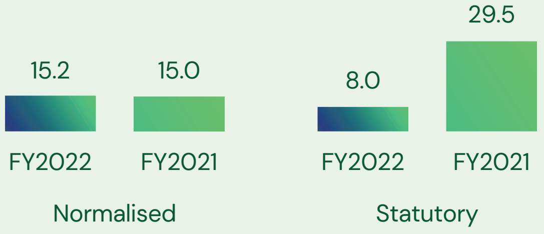


The statutory result for each of FY2022 and FY2021 includes a number of non-recurring items. In FY2022 these related primarily to acquisition and integration costs, partially offset by income from the early termination of two contracts with Reckitt during FY2021. In FY2021 these primarily related to the bargain purchase on business combination and income from the early termination of two contracts with Reckitt, partially offset by acquisition and integration costs.

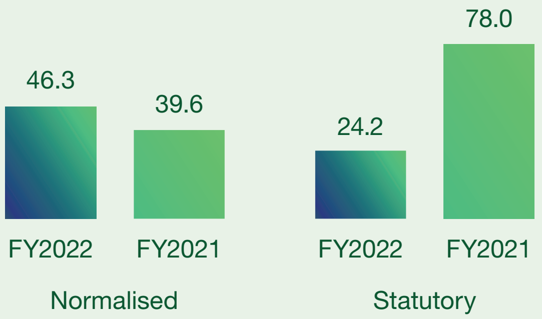
EBITDA ($ million)



Basic earnings per share (cents)



Profit after tax ($ million)



Total dividend per share (cents)

OUR TRANSFORMATION TO BECOMING A GREAT AUSTRALIAN FOOD COMPANY

2001
Seek new opportunities

Co-operative founded in 1899

Industry deregulation 2001

Bega based co-op with strong regional brand

Main focus: cheddar manufacture, process and pack

Long-term Australian supply and licence agreement with Fonterra

Developing international sales opportunities

2007
Grow and diversify

Acquisition of Tatura

Growth and diversification of milk sourcing

Entry into nutritionals, cream cheese and milk powders

Diversification of customer base

2009
Increase scale

Acquisition of Strathmerton

Cut, pack and processing scale and capability

Further diversification of customer base

2011
Structure for the future

Accessing capital for growth

Successful ASX listing

Value release for farmers

Well structured for corporate activity

Acquisition of the remaining stake in Tatura

Investment in capacity and increased focus on nutritionals and high-value dairy products

Developing foodservice and consumer businesses

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

2017
New business platform

Acquisition of grocery brands

Entry into spreads category

Iconic Australian brands, including Vegemite

Extending the Bega brand into new categories

Investing in sales and marketing capability

Acquisition of PCA to secure Australian source of peanuts

2018
Strengthen our supply chain

Acquisition of Koroit

Growth and diversification of milk sourcing

Strengthening our dairy portfolio

Integrated and flexible supply chain

Scale ingredient processing supporting customer brands

Decision to close sub-scale manufacturing facility in Coburg

2021
Transformational acquisition

Acquisition of Dairy and Drinks

Portfolio of iconic Australian brands

Broaden customer base and new cold chain distribution network

Substantial synergies across the supply chain

Accelerated investments in growth and innovation

Further growth and diversification of the milk pool

Future
A Great Australian Food Company

Creating great food for a better future

Diversified portfolio of market-leading brands

Efficient distribution network servicing customer growth

Globally competitive supply chain

Direct relationship with farmers and suppliers

Shaping our future through sustainability and circularity

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

Chairman's Report

Barry Irvin
Executive Chairman

The importance of capability, culture and clear strategy have never been more evident than in FY2022.

Across our supply chains and throughout the entire community we have all needed to be both resilient and agile as we were tested by the impacts of the COVID-19 pandemic and the disruptions to supply chains emanating from both the pandemic and extreme weather conditions. While the challenges were many, the Bega Group of companies continued to respond effectively to the almost daily operational impacts, while successfully completing the integration of the Lion Dairy and Drinks business and executing our capital works program.

In the context of both Australian and International business conditions, the financial outcomes for the FY2022 year were pleasing with a strong cash flow and continued reduction in our debt leverage ratio. The normalised EBITDA for FY2022, which excludes the integration costs of the Lion Dairy and Drinks business and the benefits of the Reckitt contract termination, is $180.1 million and normalised profit after tax is $46.3 million. FY2022 statutory EBITDA is $149.9 million and statutory profit after tax is $24.2 million. Our leverage ratio is 1.8 times.

The impact of the COVID-19 pandemic has been significant and affected both our Australian and International business, with disruption across our entire supply chain from transport and logistics to factory operations and volatility in our customers' demand particularly in food service and convenience channels. As previously reported the direct cost of COVID-19 and its associated impacts contributed an estimated additional cost in excess of $40 million.

The volatility and uncertainty created by both domestic and international events continues. The war in Ukraine significantly increased the cost of oil, packaging and other commodities. Global inflation continues to contribute to rising costs in all areas of the economy. Climatic events are now more frequent and extreme.

The need to navigate the challenges of the COVID-19 pandemic continue and the geopolitical environment remains unstable.

The Australian dairy industry continued to experience decreases in milk production with a reduction in national supply of approximately 4% to 8.5 billion litres. In general, climatic conditions were positive from a farming perspective although a number of regions were significantly impacted by wet weather and flooding events.

The shortage of farm labour and alternative land use options combined with high property prices have accelerated retirement plans for some dairy farmers. Increasing competition for traditional dairy farming assets has impacted dairy farmers wishing to expand their operations although we do observe ongoing investment by many of our farmers in their dairy businesses.

Early retirements, labour availability and weather conditions in some regions have been the major factors contributing to the decrease in farm gate milk supply. The decrease in supply together with historically high international commodity markets has seen robust competition for milk continue through FY2022 and accelerate in FY2023.

The increases in farm gate milk prices and other input costs are largely being reflected in the Australian market and will provide a stronger base from which to encourage further investment by dairy farmers in response to much more attractive returns, particularly when compared to the past decade.

Reflecting on global trends, as a food producer, food security and specifically the need to feed more people in a changing climate and a changing international geopolitical environment is emerging as a theme both locally and internationally.

While the current economic, environmental and social circumstances need to be factored into our planning and forecasts, we remain very confident that the company's strategy sees the Bega Group well-positioned to manage and respond to changes across our supply chain both in Australia and internationally.

The strength of our brands, the quality of our infrastructure and our range of dairy and food products delivers the company a well-balanced Australian and international market presence and a product portfolio that can respond to changes in those markets.

The acquisition and integration of the Dairy and Drinks business has significantly added to the strength of the Bega Group particularly in the Australian market.

While significant increases in input prices and market volatility associated with COVID-19 have presented challenges and impacted the shorter term performance, the overall integration costs, synergies, infrastructure and brand positions are at expectation and we continue to be very positive in regard to the opportunities we are identifying in the business.

In times of volatility it is important to recognise short and long term challenges while also ensuring you continue to invest and execute opportunities.

This year the Bega Group made important investments in capacity, efficiency and packaging projects that respond to market demand, improve financial performance and deliver positive environmental outcomes. The operational and financial performance of the business is discussed in greater detail in the CEO's Review and Review of Financial Performance and Operations.

The iconic market leading brands and large product range in our portfolio have been very important in an era of much volatility and uncertainty. While some of the challenges in the past years will continue into FY2023, the balance of our Australian and international business and the strength of our spreads, dairy and juice brands have allowed us to manage an extraordinarily disrupted supply chain and customer base. As we successfully pass through pricing and our supply chains stabilise, we can be very confident that the company is well positioned for growth and any corporate opportunities that further strengthen the business.

It's important that we consider how we contribute to climate change through our greenhouse gas emissions and how we can reduce those impacts. It is also important that we assess how extreme weather events, a changing climate and the transition to a low carbon economy presents risks and opportunities for our business.

In FY2021 we adopted company-wide greenhouse gas reduction targets which include 50% reduction in emissions intensity by 2030 and Net zero emission by 2050. This year we started measuring emissions associated with our supply chain. In FY2023, we will assess our climate-related risks and opportunities consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures.

It is important that we also look beyond the business, specifically at the context in which we operate, and work closely with multiple stakeholders including suppliers, government and communities in the regions where we operate to meet sustainability goals.

Our collaborative approach to sustainability can be seen in our leadership in the Circular Valley initiative in the Bega Valley. The Bega Group has been one of the driving forces behind the establishment of a Circularity Co-operative model in the Bega Valley, the home of the company, with the bold ambition of making the Bega Valley the most circular valley in the world, with outcomes that combine the knowledge of all the stakeholders in the community to deliver economic, social and environmental benefits.

This ambitious project operates under its own separate governance structure. A shared aim is for this work to become a template for other food and agricultural regions to follow and be an important part of emissions reduction, improved biodiversity, waste management, soil health, packaging and logistics, animal welfare and water management. Detail about the Bega Valley project will be provided in our Sustainability Report.

Our culture and values are the cornerstones on which this company has been built. We are very proud of the Bega story and our team, we know that it is the efforts and support of many that has helped us grow into a company that all Australian's can be proud of.

Our hearts remain in the country as our success and the support of our customers have allowed us to continue to invest in regional communities and support our farmers.

We are very proud of our origins in the Bega Valley and ownership of the famous Bega Cheese brand. We are equally proud of our growth and the addition of iconic brands such as Vegemite, Farmers Union, Dairy Farmers, Pura, Dare, Juice Brothers and Yoplait which are now all part of the company and the Bega story.

It is appropriate that we recognise all that Bega Cheese has become and the efforts of the many that ensure Bega continues to be an important part of Australian life and a leading Australian dairy and food company. In this report we have made the subtle change of now referring to the business as the Bega Group better reflecting the activities of the business while always remembering our heritage and values.

As we reflect on the outcomes of FY2022 it is important to recognise that the business could not have achieved the financial outcomes, levels of service to our customers, the continued operation of our factories and distribution depots, the supply of milk from our farmers and inputs from other suppliers without the dedication of many. In managing COVID-19 and the associated challenges, we have seen people across the entire supply chain and from all sectors working together with a goal of delivering our much needed products to customers no matter where they were in the world. I would like to acknowledge the wonderful staff of Bega Group for their efforts and particularly thank Paul van Heerwaarden and his executive team for the leadership, care and support they demonstrated to their teams and the outcomes they achieved. I would also like to thank the Bega Board for their wise counsel and values driven approach during such a challenging period. Thank you also to our shareholders and farmers for their continued support.

B.A. Irvin

Barry Irvin
Executive Chairman

26 August 2022

INNOVATION SPOTLIGHT

GROWING OUR SPREADS PORTFOLIO

Bega Simply Nuts Shake' N Squeeze

This first to market innovation improves consumers' lives by resolving the mess typically associated with natural peanut butter.

Its easy squeezy format makes it easier to use at breakfast and on other occasions throughout the day, such as in cooking, baking and snacking.

We installed a new production line to support this launch and expand manufacturing capability across the nut spreads portfolio.

Chief Executive Officer's Review

We approached FY2022 with a strong emphasis on realising the efficiencies and synergies following the acquisition of the Bega Dairy and Drinks business which has seen the company double in size. It has been pleasing to see the relatively seamless transition of the Dairy and Drinks business into the Bega Group. This was done while navigating the significant disruption across our supply chains and market channels from early October through until May related to COVID-19 and floods.

This year we have seen a rise in commodities and inflation levels not seen for many years. Competition for milk remained robust putting upward pressure on farm gate milk prices. Whilst the upward pressure on costs has been industry wide and challenging, returns for dairy commodities in our Bulk segment increased. Further increases across the cost base for the Branded segment required us to balance maintaining market share with maintaining margins through price increases. While we managed to achieve this balance, the timing of our prices generally lagged the cost increases.

Major capital projects were approved to expand growth categories, investing also in packaging sustainability and implementing efficiencies in our route to market capability. We continue to invest in our people and capability and end the year with a strong balance sheet and momentum into FY2023.

Financial result

FY2022 was the first full year of ownership of the Dairy and Drinks business (acquired in January 2021), which contributed to the material growth in the normalised financial metrics of the Group. Bega Cheese Ltd achieved statutory revenue of $3.0 billion for the year, up 45% on FY2021. Statutory EBITDA for FY2022 was $149.9 million, with statutory PAT of $24.2 million. On a normalised basis, EBITDA was $180.1 million, within our updated guidance for the year, with PAT of $46.3 million.

In December we renewed our syndicated debt facility and increased the number of banks from two to four. Focused management of working capital significantly improved cashflow and reduced both our leverage ratio and net debt. Our net debt on 30 June 2022 was $265.1 million, 18% lower than the prior year. The Group's leverage ratio of 1.8 for FY2022 was significantly lower than FY2021 and well within covenant limits. Early termination payments from Reckitt agreements injected $41.6 million in cash, which also contributed to the overall reduction in debt.

Paul van Heerwaarden
Chief Executive Officer

Consolidating transformation – positioned well for the future

I am very pleased with the contribution of the Bega Dairy and Drinks business in the 18 months we have owned the business, despite the challenges throughout the year. Following the acquisition, we focused on our 100 day plan and immediately implemented the changes we needed, whilst we determined the opportunities in the longer term. Throughout FY2022 we executed the business integration and synergy program, successfully optimised milk usage through our expanded milk processing network, realised procurement cost savings and leveraged combined distribution and go-to-market capabilities.

We are working on opportunities in our extensive route business which enables our entire Group to deal directly with customers for whom we already process approximately 39,000 orders a week. We are leveraging our expanded customer base, which now includes cafes, impulse, government, aged care and healthcare to complement our traditional stronghold of grocery, co-manufacturing and quick service restaurant customers. Initiatives included extending the range of products supplied to those customers to create greater value from our distribution network, introducing contactless delivery in response to COVID-19 and we continue to invest in our digital platforms and infrastructure to further improve customer experience.

With regular disruptions in the impulse and food service channels due to COVID-19 and the floods, our retail portfolio of market leading brands was able to capitalise on buoyant demand in the grocery channel to mitigate the impact of disruptions elsewhere. Pleasingly, the impulse trade and foodservice channels have both demonstrated levels of recovery leading into FY2023.

Branded product categories

FY2022 saw category value growth of 6.3% in yoghurt, 5.2% in chilled juice, 5.2% in spreads and 2.3% in milk based beverages. Despite significant disruption to both manufacturing and distribution of branded products we maintained market leading positions in yoghurt, milk based beverages and spreads.

We continue to invest in innovation of our products and packaging to meet consumer trends and needs. This year we launched Squeezy Simply Nuts peanut butter, a new range of Mildura sparkling fruit drinks, Dare Sparkling Cold Brew, lactose free Farmers Union Iced Coffee and Pura lactose free milk. We extended the Dare no added sugar offering and expanded our range of flavoured milk, yoghurt and juice with new flavour extensions. In chilled juice we launched a new Daily Juice one litre specialty range with added fibre and probiotics.

Further details are included in the Review of Financial Performance and Operations.

Market dynamics – commodity and consumer milk

With the substantial and rapid increase in global commodity prices over the course of FY2022 we realised increased returns for our bulk dairy products, which in some cases exceeded the returns from some of our consumer dairy products. The longer time frame to realise price increases in the consumer market compared to commodities markets contributed to this. This interplay between commodity prices and the domestic consumer prices for dairy products is not common. Normally we would expect the opposite, however it is worth noting the importance of this bulk business.

White milk is a core part of our product range in both grocery and non-grocery channels. Since the acquisition of the Bega Dairy and Drinks business, the consumer price for private label white milk at major grocers has increased 41%, from $1.10 to $1.55 per litre of milk for a two-litre bottle, in response to the higher cost of farm gate milk. With ongoing pressure on the supply of milk, these significant price increases across the market are expected to continue to have a positive impact on our returns from white milk.

Flexibility in our supply chain enables us to manage milk efficiently across the network to maximise value. This has been particularly beneficial during extended periods of disruption, enabling us to shift production across different products and facilities. This was a material synergy, which we started to realise in FY2021 and consolidated throughout FY2022 and is a process now well-established in our daily operations.

In the Bulk segment we completed the exit from the Reckitt service and access agreements and received the remainder of the early termination payments, which are included in the statutory result. We have reset the cost structure of that business to deal with the termination of those agreements, exited the Derrimut infant formula canning site, and secured access to canning capacity via a co-manufacturing arrangement with a third party. Following a softening of the market in FY2021, the infant formula market has stabilised over the course of the year. Lactoferrin contributes a material profit to the Group and we continue to explore further opportunities to grow this business.

Our contract cheese packaging business faced challenges with supply chain disruption and low labour availability. This business stabilised by the fourth quarter.

Further details are included in the Review of Financial Performance and Operations.

Sustainability

We continue to focus on the five sustainable priorities established and communicated in our FY2019 Sustainability Report. These are food nutrition, diversity, inclusion and equality, greenhouse gases, packaging sustainability and water sustainability.

In FY2021 we committed to greenhouse gas emission reduction, establishing targets on carbon Scope 1 and 2 emissions which include a 40% reduction in absolute emissions by 2030 and net zero carbon emissions by 2050.

We have completed an initial assessment of our Scope 3 emissions, which are generated primarily in our supply chain, particularly dairy farming. This assessment has identified opportunities with our partners to reduce Scope 3 emissions and mitigate risks.

An Energy Management Capability program to increase energy efficiency in our manufacturing sites is underway. This includes energy management initiatives such as energy mapping, metering, lighting, heat recovery and refrigeration.

As a member of the Steering Committee of Dairy Australia's Australian Dairy Industry Sustainability Framework we aligned with industry goals and in April we adopted a Planet Pledge, extending our environmental targets to also include zero waste to landfill by 2025, a 30% reduction in water use by 2030 and 100% of our packaging to be reusable, recyclable or compostable by 2025. Along with other dairy industry participants, we are partnering with Dairy Australia to formulate an action plan to halve dairy food waste by 2030.

Further details can be found in our FY2022 Sustainability Report.

Operational disruption

In the first quarter of FY2022 we started to incur significant increases in input costs for oil, packaging and other commodities including coffee and sugar. More material and sustained commodity price increases escalated in the second quarter and through the remainder of the financial year, fuelled by COVID-19, floods and the war in Ukraine. To the extent possible, we have actively passed on these cost increases and have progressed further cost saving initiatives to mitigate the impact of inflationary pressures.

From October the Omicron variant of COVID-19 saw high levels of absenteeism across our manufacturing sites and distribution centres and those of our suppliers, including raw material, packaging, transport and pallet suppliers. This in turn placed pressure on production volumes and service levels.

To limit the impact of COVID-19 in our workplace, we invested heavily in personal protective equipment and rapid antigen tests, as well as deep cleaning and segregation. COVID-19 also impacted our customers, many of whom not only experienced significant reduction in foot traffic but also had to close their stores on short notice because of lockdowns or labour unavailability.

Flood events in South Australia in February and then New South Wales and Queensland in March, further escalated the disruption from COVID-19. This impacted our access to road and rail logistics, which reduced our ability to ship products around the country.

Global shipping disruption, and specifically the lockdown in Shanghai, a lack of container availability and the cost of containers, impacted our export and international market during the year, especially for infant formula to China. Delays in the shipping of some imported ingredients, packaging and capital items put further pressure on our operations.

In mid May we started to see service levels recover and markets return to some level of normality. Overall we had a six month period of significant disruption impacting our supply chain, our customers and our people.

Investment in our people

As part of the ongoing commitment to having an interdependent safety culture, we aligned the Bega Safety Principles in consultation with our employees to guide decisions and influence the way our people act and interact. These principles will help us embed a culture of care that has been central to the safety transformation work commenced in FY2021. Our Health and Safety Policy was updated in July 2021. Our Safety Management System is being updated to align to the requirements of AS/NZS ISO 45001 standards. Our safety metrics are reported in our Sustainability Report.

Following the launch of our Calm healthy minds program in FY2021, we have established a mental health committee to elevate visibility of and provide the tools to support leaders to have conversations about mental health. To support our people and in particular, our working families that may experience stress and additional pressure caused by school closures and restrictions, we continue to enhance and promote our workplace flexibility policy.

Our approach to diversity and inclusion is outlined in our Bega Cheese Diversity and Inclusion Policy updated in July 2021. We report to the Workplace Gender Equality agency (WGEA) and have this year received compliance status. In line with our submission to WGEA, we undertake an annual review of the gender pay gap and address immediately like for like anomalies. To ensure diversity and inclusion reaches all of our people, we have introduced site-based diversity and inclusion teams. The teams provide an opportunity for direct two-way feedback with the executive that is frequently candid, thought provoking and ultimately fast tracks identification of issues and improves outcomes.

In June we received Board approval and formally achieved signatory status in August to the HESTA 40:40 vision where we have pledged to achieve gender balance (40% men, 40% women and 20% any gender) in executive leadership by 2030. In line with the program milestones, we will make public in the next twelve months our pathway targets for 2024 and 2027.

Outlook

The acquisitions in recent years of Bega Foods, Peanut Company of Australia, the Koroit dairy plant and Bega Dairy and Drinks have transformed the company. These acquisitions have diversified our product offering, expanded our distribution capability and reduced risk in our supply chain through greater flexibility. This has positioned us to navigate disruption, extract value and continue to grow.

An immediate challenge is inflationary pressure and how we mitigate higher costs through a range of mechanisms including but not limited to pricing, growth, cost control and productivity. We have had significant cost increases going into FY2023 and have factored these into our outlook and guidance.

The COVID-19 and supply chain disruptions that significantly impacted us from October through to May have stabilised. While changes to isolation requirements could potentially impact operations, we factor in COVID-19 as a normal part of doing business. The return to normal service levels and sales momentum in mid-May has continued. Our diversification of inputs and capability help mitigate the ongoing risks of disruption. We have been able to redirect milk across different facilities to realise value when there has been disruption. Flexibility in our supply chain has been an important factor in our resilience and ability to navigate disruptions.

The benefit of increased consumer prices has started to flow through in FY2023 across all channels and product categories. As foreshadowed in June, we expect competition for farmgate milk to remain robust in FY2023.

Recently we announced the appointment of Peter Findlay to the new role of Chief Operating Officer focused on developing and growing the Branded segment. Peter joined Bega in November 2019 as Chief Financial Officer and has over 20 years' experience in professional services and senior finance and operational roles in private and publicly owned businesses. Recruitment of a Chief Financial Officer has commenced.

We are pleased to end the year in a position of balance sheet strength, one which enables us to continue to support further growth, invest in brands, innovation, capital projects and importantly our people.

Finally, I would like to extend my thanks to our employees, the executive team, the Board, our farmer suppliers, other suppliers, investors, customers and consumers of our products for their support, dedication and encouragement. Whilst the year was one of significant challenge, it was transformative and one of opportunity. We exit FY2022 well placed for the future.

Paul van Heerwaarden
Chief Executive Officer

26 August 2022

Creating Great Food for a Better Future and Sustainability

Our purpose statement guides our policy framework and our key focus areas with respect to sustainability. A better future incorporates our farmers and suppliers, our people, our customers and consumers and the communities in which we operate.

Within our program framework, we have five key sustainability priorities. This incorporates the Bega Better Farms program and influences how resources are deployed across the business. These five key sustainability programs are aligned with the United Nations Sustainable Development Goals and are described in more detail in our annual sustainability report.

Food and nutrition

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

Packaging

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

Water sustainability

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

Greenhouse gas emissions

Reducing our scope one and scope two emissions to achieve our 2030 and 2050 targets and engaging with suppliers and customers to better understand the sources of our scope three emissions and where reduction opportunities exist.

Diversity, inclusion and equality

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

The Bega circular valley initiative

In a circular economy, resources and materials are maintained at their highest possible value for as long as possible. In contrast with traditional linear economies with high levels of waste, a circular economy reflects a closed loop along the value chain.

With the specialist support of KPMG and Rabobank, alongside the Bega Valley Shire Council and input from local NSW State Government Representatives, we have now created the Regional Circularity Co-operative. The co-operative is actively working with industry, community and government to source funding and prioritise projects to create a legacy for future generations of the Bega Valley. It is our vision that the circular valley initiative will build a more resilient Bega Valley region through the adoption of circular practices and will be a model that can be applied in other regions throughout Australia. Bega Cheese has provided co-investment in both the establishment of the co-operative and in pro-bono resources to explore potential projects and partners.

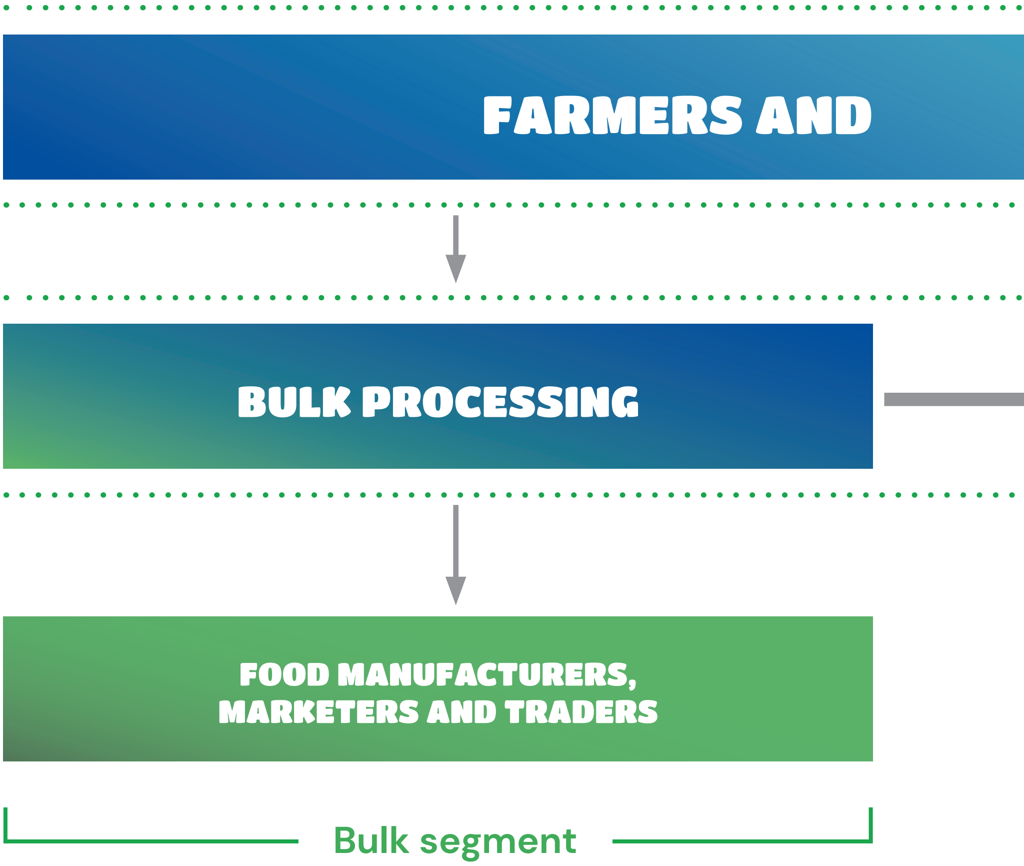
A circular economy is about more than just recycling

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

SUSTAINABLE DEVELOPMENT GOALS

Our priorities are aligned with the UN Sustainable Development Goals

Our Business Model



Integrated value chain from farm to consumer

Bega's business model comprises four core capabilities, which represent our integrated value chain from farm to consumer. Our long-term and short-term planning processes are focused on further strengthening this value chain and are supported and enabled by high-performing teams with deep industry experience. This business model also helps explain how activities are grouped as part of segment reporting.

Bega maintains strong relationships with farmers and other suppliers which ensures provenance and quality throughout the supply chain. We work closely with our suppliers to support sustainable farm practices and will continue to explore circularity as a key initiative to build long term resilience in the communities in which we operate.

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

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

We further strengthened our integrated value chain following the acquisition of the Bega Dairy and Drinks business in 2021. This transformational acquisition enabled the further diversification of milk sourcing and improved the flexibility and efficiency of the supply chain. As part of the integration, we have implemented a range of initiatives to reduce our cost base and improve the way dairy solids are managed across the manufacturing network. The acquisition also included a portfolio of heritage brands and significantly increased our customer reach through the daily chilled distribution network which provides a platform for further growth.

"BEGA HAS DEVELOPED A FLEXIBLE AND INTEGRATED VALUE CHAIN WHICH PROVIDES A PLATFORM FOR FURTHER GROWTH."


Our core capabilities
OTHER SUPPLIERS
Direct relationship with our farmers and other suppliers
PACKAGED GOODS PROCESSING
Globally competitive supply chain
CONTRACT PACKING AND PRIVATE LABEL
BEGA BRANDED BUSINESS
Diversified portfolio of market leading food brands
DISTRIBUTION NETWORK
Efficient distribution network serving customer growth
FOODSERVICE AND RETAIL CUSTOMERS
CONSUMERS
Branded segment
Key
Product flow
Supplier
Internal Bega process
Bega's direct customer
Bega's indirect customer

Australian Retail Categories and Consumer Brands

Bega has a portfolio of leading iconic brands in seven consumer categories. Many of these brands have become trusted household names by generations of consumers. Our brand portfolio strength, priorities and strategies are crucial to long-term sustainable value creation.

The ongoing investment in brand building and innovation ensures we compete in attractive and growing product segments, capitalise on emerging consumer trends, remain relevant, and win consumer preference.

Category	Category size $m	Category growth	Bega share	Brand portfolio
Fresh white milk[1,2]	1,942	1.4%	12%	Dairy Farmers, PURA, Masters M, Complete Dairy
Yoghurt[1]	1,563	6.3%	25%	Farmers Union, Dairy Farmers, Yoplait, The Culture Co.
Milk based[1,2] beverages	851	2.3%	50%	Dare, Iced Coffee, Masters M, Dairy Farmers, Big M
Spreads[3]	666	5.2%	32%	Vegemite, Bega Peanut Butter, Bega Simply Nuts, B Honey
Chilled juice[1]	620	5.2%	23%	Daily Juice, The Juice Brothers, Mildura
Creams and custards[1]	515	1.3%	10%	Dairy Farmers, PURA
Water ice[1]	54	8.2%	81%	Zooper Dooper, Berri

Portfolio with breadth and scale

The categories cover a broad spectrum of consumer needs, uses, consumption occasions and sales channels. The portfolio breadth increases business resilience and creates efficiencies in marketing activity, with consumer insights often relevant across multiple categories. Our scale enables us to partner with customers in retail and foodservice channels to grow their business and customise products for local tastes and preferences.

Sustainability as a growth driver

Building a sustainable future links directly with our purpose, creating great food for a better future. Most of our brands contain ingredients sourced directly from farmers. This direct connection to source and Bega's focus on farming sustainability answers consumers' desire for brands and ingredients that are natural, healthier, less processed, and sustainably sourced.

1 Data extracted from IRI Total Business Scan (AU grocery Unweighted and Structured Convenience) MAT 30 June 2022. Statements in relation to market share value data provided by IRI (and Bega's competitive position) are based on outside data sources, assumptions and weightings in combination with management estimates

2 Excludes non dairy

3 Bega calculation based in part on data reported by NielsenIQ through its Scantrack Service for the Total Spreads category (Client defined), for the 52-week period ending 28 June 2022, for the Total Grocery Australia market (value). Copyright © 2021, Nielsen Consumer LLC

INNOVATION SPOTLIGHT

IMPROVING WELLBEING THROUGH NUTRITION

Daily Juice One Litre Functional Range of Juices

For the best start to the day, the Daily Juice brand has an expanded range of products with added nutrients for an extra dose of happiness and wellness.

The trend of nutritional fortification is strong in most categories, as consumers look for ways to eat better while enjoying their favourite foods.

This range makes it easy to improve wellbeing outcomes with delicious juices containing nutrients that consumers value as part of a balanced diet.

Review of Financial Performance and Operations

Key highlights

FY2022 represented the first full year of operations within the Bega Cheese Group of the acquired Lion Dairy and Drinks business. In addition to the realisation of efficiencies from the acquisition, the Group managed many challenges as a result of supply chain disruption caused by COVID-19, the impact of substantive flooding in vast parts of Australia and record farm gate milk prices.

Expansion of the processing network achieved through the acquisition of Lion Dairy and Drinks enabled the Group to optimise the value of milk and this, along with procurement cost savings and the ability to leverage the combined distribution and go-to-market capabilities, helped mitigate the impact of the extended period of significant disruption during FY2022.

The industry has experienced a sharp and sustained recovery in both the commodity and consumer price of milk which has continued into FY2023. Whilst the increased costs are being passed on and have started to flow through, there is a lag in the full recovery which will extend to FY2024.

A disciplined approach to cash flow generation and a refinancing of debt sees the Group finish the year in a position of Balance Sheet strength with a leverage ratio well within covenant limits and the capability to continue to invest in brands, products, people and capital for further growth in accordance with the Group's strategic pillars for FY2023.

Finance and operational overview

Bega Cheese generated top line statutory revenue of $3.0 billion, up 45%, statutory EBITDA of $149.9 million, down 19%, statutory profit after tax of $24.2 million, down 69% and statutory earnings per share of 8.0 cents (FY2021 29.5 cents).

The Group will, as it has in previous years, report on both the statutory result and the normalised result for FY2022 compared to the prior year. This report focuses on the normalised result. The normalising adjustments to the statutory results are in the table on page 29. The non-IFRS financial information contained within this Directors' Report has not been audited in accordance with the Australian Auditing Standards.

Bega Cheese generated normalised EBITDA of $180.1 million, up 27%, normalised profit after tax of $46.3 million, up 17% and normalised earnings per share of 15.2 cents (FY2021 15.0 cents).

The Group result for FY2022 was impacted by:

- disruption associated with COVID-19, especially from lower sales demand in impulse and foodservice channels, high absenteeism in our factories and supply chain disruption impacting local and export delivery performance. Significant additional costs were incurred during this period to maximise continuity of supply
- significant price increase in global commodities used in the production of finished goods as well as fuel costs linked to crude oil increases
- temporary stock shortages and higher freight costs associated with alternate transport routes impacted by floods
- export container availability and cost, as well as port closure in Shanghai
- strong competition for milk supply and significant increases in farm gate milk prices.

The impact of these challenges was mitigated by:

- completion of Bega Dairy and Drinks integration and achievement of synergy target
- strong retail sales volume and mix across the branded segment, particularly in retail Grocery
- favourable sales pricing on commodity sales within the bulk segment
- pass-through of cost-led price increases which will mostly be realised in FY2023
- achievement of cost saving and continuous improvement programmes
- full year of earnings on Bega Dairy and Drinks.

Bega Cheese continues to maintain a strong balance sheet, with net debt reducing to $265.1 million (FY2021 $324.9 million) and leverage ratio down to 1.8 times (FY2021 2.3 times), well below covenant limits and well placed to fund investments in growth and future commitments.

The Group received 1.40 billion litres of milk during FY2022, up 25% on the 1.12 billion litres received in FY2021. FY2022 includes the first full year of milk procured for Bega Dairy and Drinks which was acquired seven months into FY2021. The Group acknowledges the loyalty of its milk suppliers and welcomes new suppliers.

Progress towards achieving strategic objectives

The Group continues to make significant progress towards achieving the key strategic objectives outlined in last year's annual report.

The strategic pillars that underpin those objectives are:

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

Diversified portfolio of market leading brands

Following the strategic acquisitions of the last five years, culminating in the purchase of the Dairy and Drinks business in January 2021, the Group has grown the proportion of branded product from 20% to 82%, surpassing the goal of having 80% of all revenue generated through branded product during the year.

This transition to a consumer branded business unlocks greater long term value for shareholders and reduces risk across our portfolio.

The spreads category continues to grow, up 5.2% in FY2022. The Group's brands in this category, which include Vegemite, one of Australia's most iconic household names, along with the Group's peanut butter and honey range had a very strong year, with less disruption than in other parts of the business. Diversification into these products brings robustness and resilience to our portfolio, and this business, which was acquired five years ago, is performing well. During the year, a consumer friendly Squeezy

Simply Nuts Peanut Butter and Bega Peanut Butter with 25% more protein was launched. The Group maintained its share of the Australian spreads market in FY2022.

Category growth in milk based beverages was 2.3%. Big M, Farmers Union iced coffee and Dare brands along with the category as a whole were regularly impacted by disruption in the impulse purchase channel during FY2022.

Notwithstanding this the Group managed to maintain a market leading position in milk based beverages, with a market share of 50%, driven by strong activation and innovation platforms, particularly the no added sugar range in the iced coffee segment and Dare Sparkling Cold Brew which was launched in convenience and grocery channels. The Group also expanded the range of flavoured milk with new flavour extensions.

With category growth of 5.2% in FY2022, chilled juice is another category presenting considerable opportunity for the Daily Juice, Mildura and The Juice Brothers brands. Whilst market share fell 1.6 percentage points over the course of the reporting period, the Group is focused on recovering share by evolving the portfolio to tap into functional health trends whilst continuing to invest in our core value brands. During the year the Group introduced a new range of Mildura sparkling fruit drinks in convenience and grocery channels, launched a new Daily Juice one litre specialty range with added fibre and probiotics and added new flavour extensions to our existing product range, adapting to lifestyle changes and emerging consumer preferences and tastes.

With category growth of 6.3%, yoghurt was the stand out performer for the year from among our traditional suite of product categories. Whilst market share declined due to strong competitor activity in this category, with the expansion of indulgent and functional health innovation and increased promotional intensity, the Group were still able to capitalise on growth in this category and finished the year retaining a market leading position with 25% market share. In FY2022 the Group launched a functional range of Farmers Union Greek yoghurt with lactose free and immunity variants, improved the formulation of Australia's favourite family yoghurt – Yoplait, resulting in a thicker yoghurt with even more fruit. With its high rate of category growth, yoghurt continues to bring significant opportunity for the business in the future.

Adapting to changing consumer tastes and preferences, the Group increased production of plant-based proteins, and the Joint Venture with Vitasoy International Holdings Pty Ltd, now holds 26% of the plant based milk market in Australia, a fast-growing category that achieved 11.7% growth in FY2022.

The white milk category grew 1.4% in FY2022. With market share of 12%, the performance of the Group's portfolio of white milk brands: Pura, Dairy Farmers, Masters, Complete Dairy and Canberra Milk stabilised in the grocery channel despite strong inflationary pressure. The focus for the year ahead will be to continue to invest marketing support behind core brands whilst selectively participating in emerging growth segments such as lactose free.

Globally competitive integrated supply chain

The Group's integrated manufacturing network enables value to be added to each stage of the product life cycle and enables the optimisation of milk by moving it to the most profitable lines in response to changes in global commodity markets, local consumer tastes and preferences as well as logistical challenges.

This proved particularly valuable during the COVID-19 and flooding disruptions of FY2022, enabling the movement of milk to alternative sites where access was restricted or sites were understaffed due to isolation requirements. In doing this the maximum value of milk was extracted, so critical with milk prices increasing significantly during the period. It also allowed increased exposure to important global commodity price increases in products such as butter and skim milk powder.

Processed cheese capability was consolidated and efficiencies and synergies were extracted through that part of the business.

With multiple product streams across 20 manufacturing facilities around Australia, the Group can balance fat and protein between product categories and different sites, to optimise returns. The Group have an ever-growing dairy collection network which now provides increased access to dairy areas such as Gippsland and Tasmania, creating a larger and more resilient milk pool.

Direct relationships with our farmers and suppliers

The Group deals directly with approximately 920 dairy, fruit and peanut growers across Australia. These direct farming relationships enable provenance with most of the products that are produced. They also allow for genuine, meaningful relationships to be struck with suppliers. That creates the opportunity for Bega to support sustainable and responsible farming of produce.

With a La Niña weather pattern bringing colder wetter conditions from December 2021 through to June 2022, large areas of Queensland, New South Wales, Northern Victoria and South Australia experienced major storm events and extensive flooding.

This caused disruption to milk supply, some minor damage to this year's peanut crop and extensive damage to farm infrastructure such as fences, laneways and irrigation infrastructure.

Support to farmers included:

- adopted a safety first approach across the supply chain to help ensure wellbeing
- in some regions affected by storm damage and power outages generators were sourced to help farmers continue milking
- where milk could not be collected due to road closures, farmers were still paid for their milk
- funded field visits to impacted farms to advise on wet weather management and recovery strategies
- made funding available under the Better Farms Program for capital works grants and to repair infrastructure
- prioritised installation of back-up generators in the capital works program to enable famers to keep milking and minimise adverse animal welfare outcomes resulting from prolonged power outages.

Efficient distribution network servicing customer growth

Since the acquisition of the Dairy and Drinks business, Bega has 110 logistics locations across Australia servicing more than 26,000 customers across all states. These logistics locations form one of the largest cold chain distribution networks in the country, with connectivity between metropolitan, satellite and regional Australia.

Supported by a robust technology platform to manage orders, delivery and payment, the network currently services 39,000 deliveries per week with capacity for growth. This network is central to Bega's value proposition to clients, enabling it to offer customers a better customer experience at a more efficient cost.

Although the route business was impacted by both COVID-19 and floods, the Group were able to mitigate the impact of those by enhancing the customer experience through new offerings such as contactless delivery and realising new business in cafes, government institutions, aged care and health care.

A pilot trial was successfully completed with an expanded product range of butter and cheese through the Group's direct delivery model in Victoria which is expected to be extended to additional products and across more states.

While impulse purchases through convenience stores declined during lockdowns, grocery sales increased.

The Group continues to leverage the scale and reach of the combined cold chain distribution network of both Bega Foods and Bega Dairy and Drinks, and their go-to-market capabilities. The Group see great opportunity in the route business and continue to explore opportunities to grow this part of our operations through investment in technology, improved customer experience, and channel specific sales support.

Significant events

Integration

In FY2022 the integration of Bega Dairy and Drinks was completed. The integration program successfully delivered planned outcomes in the following areas:

- Realisation of synergy targets through:
    - more efficient combined organisation design implemented in late FY2021
    - cost savings across common suppliers in technology and personnel services, packaging and media
    - savings programs implemented across the supply chain network during FY2022
    - more effective milk flow through manufacturing assets optimising solids and returns
    - continued investment in high returning capital projects.
- Transition of IT infrastructure from Lion to Bega and the completion of the transitional services agreement with Lion in January 2022 as planned.
- Integration of key policies and controls ensuring a strong governance framework is maintained across the business.

The Dairy and Drinks Integration Committee of the Board concluded its work and dissolved in July 2022 after the committee had determined that it had achieved its mandate.

COVID–19

COVID-19 continued to be a challenge for the Group throughout FY2022. The Group continually navigated uncertainty in our supply chain and customer base throughout the year. As disclosed in market updates during the year, COVID-19 impacts eased in the fourth quarter. However, full year direct costs attributable to COVID-19 are estimated to be in excess of $40 million. This does not include any indirect costs that have hampered efficiency or affected consumer buying habits.

The Group continued to respond through FY2022 to the pandemic making the safety and wellbeing of employees, suppliers, customers, and communities our highest priority. The measures with which the Group responded to the pandemic include:

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

Maintaining Bega's supply chain efficiency during the pandemic proved to be a challenge, with isolation requirements, for both employee close contact and testing positive for COVID-19, reducing plant and warehouse capacity due to absenteeism. Suppliers and service providers were not immune to these challenges and also experienced significant pressure due to COVID-19 related absenteeism. Bega were able to mitigate to some extent by leveraging the Group's increasingly diversified manufacturing footprint and extensive distribution network.

Safety

Safety is fundamental and the Group recognise that its current Total Reportable Injury Frequency Rate (TRIFR) needs to improve. The Group is committed to ensuring a healthy and safe work environment for employees, contractors and visitors to sites. The Group's safety culture encompasses the employees' beliefs, values and attitudes with respect to safety and this helps ensure that any safety risks present in activities are effectively managed.

The Group relaunched eight safety principles to help all employees to integrate safety into the business goals and values and behaviours. The Group has continued to roll out a safety behavioural leadership program facilitated by DuPont Sustainable Solutions.

Sustainability

The vision is to be the Great Australian Food Company. This involves a focus on great food, great people, great aspirations and working for the greater good. The Greater Good strategy is aligned to the United Nations Sustainable Development Goals with a focus on addressing the impacts of the Group and where it can contribute to sustainable development. Detailed information on the Group's corporate sustainability performance can be found in the 2022 Sustainability Report which will be available on our website.

The Group has continued to support the 'Bega Circular Valley 2030' program, which is a regional development initiative to establish Bega Valley Shire as the most circular regional economy by 2030. This pilot program, which operates in collaboration with key external stakeholders and under its own separate governance structure, will identify, accelerate and implement 9 enabling projects, supporting the delivery of 15 flagship and 29 circular projects to stimulate a regional circular marketplace and a network of diverse stakeholders. Further information on the Bega Circular Valley 2030 program will be contained in the 2022 Sustainability Report.

Environmental regulations and management – Legislative framework

The Group's manufacturing sites are licensed under multiple Federal and State Environment Protection Regulations. The licences stipulate performance standards as well as specific monitoring requirements for emissions such as noise, air, odour and wastewater.

In FY2022, the Group reported compliance activities to environmental regulators and water authorities. Most notifications have been successfully resolved with the appropriate regulator during the year and no fines have been issued. Specifically, the Group:

- received one minor notice from South East Water in Chelsea, Victoria which was resolved without further action
- received one Direction Notice from the Tablelands Regional Council to the Peanut Company of Australia regarding dust complaints at the Tolga Factory in Queensland, which is in progress
- reported five wastewater breaches against waste trade agreements - two at Penrith, New South Wales and three at the Vegemite Way site in Victoria. All breaches were resolved and no further action was required of the Group by the regulator.

In addition, during FY2022, the Group complied with all statutory and voluntary environmental reporting requirements and continues to monitor and report energy intensity and greenhouse gas emissions.

Major environmental initiatives

Initiatives to improve the Group's environmental performance during FY2022 include:

- Adoption of a Carbon Reduction Program 2030 and further implementation of our Energy Management Capability which was recognised at the National Energy Efficiency Awards in the Leading Energy User Category.
- Adoption of corporate targets under a Planet Pledge including zero waste to landfill by 2025, a 30% reduction in water use by 2030, net zero carbon emissions by 2050 and packaging to be reusable, recyclable or compostable by 2025.
- Audits by third parties of key manufacturing sites at Malanda, Kingaroy, Koroit, Bentley, Lagoon Street, Ridge Street, Salisbury, Lenah Valley and Strathmerton under the SEDEX Members Ethical Trade Audit (SMETA).
- Completion of an ethical sourcing self-assessment questionnaire by 205 suppliers and 90% of suppliers designated to be higher risk have completed an independent audit under SMETA.
- Work with the Rainforest Alliance to procure coffee for specific manufacturing sites which are now independently certified to the Rainforest Alliance 2020 Sustainable Agriculture Standard.
- Completion of the transition away from polyvinyl chloride packaging. More than 82% of total packaging is recyclable and nearly 24% of packaging includes recycled content.

Supporting farmers

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

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

The Group continues to support dairy farmers through the Better Farms Program which helps farmers develop and improve their business through capital grants, advice and training. The Group have extended the program to now include all of its dairy farmers who have joined the network through and since the acquisition of Bega Dairy and Drinks in January 2021. Between April 2018 and May 2022, the Group invested more than $1,765,000 in grants for advice and service support, capital works and training and development. Grants to more than 500 dairy farmers have been distributed. These grants were made chiefly to improve animal health and welfare outcomes and to manage effluent, irrigation and water, energy, workplace health and safety, chemicals and soil. A dedicated website tracks the program's achievements, to highlight them to Australian consumers. A third party provides independent assurance every three years to stakeholders that grants under the program are being spent on agreed projects. This information is publicly available on the website at https://betterfarms.com.au

The Group have been able to expand the Australian peanut crop this year to an estimated 25,000 metric tonnes, from 8,000 metric tonnes in FY2020. This supports Australian peanut farmers and the Simply Nuts peanut butter range which is made from 100% Australian grown peanuts. The Group's Farming Services Team of eight provides peanut growers with agronomic advice in the field, and training on growing conditions and new varieties. A Grower Advisory Group includes grower representatives from each of the major growing regions. They meet quarterly and while they help in our communication with farmers, they also advocate and raise concerns on behalf of peanut growers.

Modern Slavery prevention

The Group will produce its third modern slavery statement at the end of this calendar year in compliance with section 13 of the Modern Slavery Act 2018 (Cth) and section 24 of the Modern Slavery Act 2018 (New South Wales). The Modern Slavery Action Plan is implemented by an internal Modern Slavery Working Group which reports to the Board and consists of a group of cross functional managers. The Working Group reviews risks and assesses the performance against industry norms and regulations in the jurisdictions in which the Group operate. While early work in this area was focused on identifying potential sources of modern slavery risk in operations and supply chain, the Group's focus now is on building awareness and trust.

Finalisation of Reckitt contract

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

To compensate for the loss of future earnings, the Group recognised contractual termination fees totalling $55.5 million across FY2021 and FY2022 ($25.7 million in FY2022) in relation to both agreements. $41.6 million of fees were received in cash in FY2022 with no further amount outstanding. The Group has assessed the implications of the termination and implemented cost out initiatives through the closure of the plant in Derrimut and rationalisation of dryer capacity at Tatura. The Group has also sourced alternate canning capacity with a third party to secure own volume requirements.

Dividends paid in FY2022

On 27 August 2021 Bega Cheese declared a final FY2021 fully franked dividend of 5.0 cents per share, representing a distribution of $15.1 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 24 September 2021 and raised $2.0 million in new share capital.

On 24 February 2022 Bega Cheese declared an interim fully franked dividend of 5.5 cents per share, representing a distribution of $16.7 million. The Directors again activated the Group's DRP for this dividend. Shares purchased under the DRP were allotted on 24 March 2022 and raised $1.1 million in new share capital.

On 26 August 2022 Bega Cheese declared a final fully franked dividend of 5.5 cents per share representing a distribution of $16.7 million, an increase of $1.6 million compared to the 2021 final dividend. The DRP will also be available for this dividend.

Dividends paid to shareholders in relation to the FY2022 year will total $33.4 million which represents a $3.2 million increase over the dividends paid in respect of FY2021 which totalled $30.2 million.

Reconciliation of statutory and normalised performance

As in previous years, the Group reports on both the statutory result and the normalised result for FY2022 compared to the prior year. Commentary in this report focuses on the normalised result.

GROUP STATUTORY RESULT FY2022

On a statutory reporting basis, the Group generated:

$ million	FY2022	FY2021
EBITDA	$149.9	$184.5
EBIT	$46.2	$109.5
PBT	$33.8	$99.2
PAT	$24.2	$78.0
EPS	8.0 cents	29.5 cents

GROUP NORMALISED RESULT FY2022

The statutory result for the Group in each of FY2022 and FY2021 included several one-off items, most of which related to corporate activity. While these items all had a financial impact on the statutory performance of the Group, they did not affect the underlying financial performance of the business.

To provide a more meaningful understanding of the underlying financial performance, normalising adjustments to the statutory financial statements for each of these items were made. These are set out in more detail in the table on page 29. On a normalised basis the Group generated:

$ million	FY2022	FY2021
EBITDA	$180.1	$141.7
EBIT	$76.4	$68.8
PBT	$64.0	$60.1
PAT	$46.3	$39.6
EPS	15.2 cents	15.0 cents

MATERIAL ITEMS IMPACTING GROUP NORMALISED RESULT FY2022 AND PRIOR YEAR

Normalising adjustments in FY2022 consist of the following:

- One off costs incurred in relation to the acquisition and integration of Lion Dairy and Drinks totalling EBITDA of $46.5 million, including excess transition services arrangement charges from Lion, consultancy and legal, redundancy, separation costs, and project team resourcing.
- Income associated with the termination of the Derrimut and MSD2 access and services agreement by Reckitt totalled $55.5 million across FY2021 and FY2022. Termination fee income of $25.7 million was partially offset by rightsizing restructuring costs of $6.0 million in FY2022.
- Other costs include expensing of certain Software as a Service (SaaS) applications totalling $3.0 million under a revised accounting policy.

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

Consolidated	Per Financial Statements $m	Reckitt Termination $m	LDD Transaction Related Costs $m	Other Costs $m	Normalised Outcome $m
Period ending 30 June 2022					
Revenue	3,009.9	(24.1)	-	-	2,985.8
Cost of sales	(2,320.5)	0.2	-	-	(2,320.3)
Gross profit	**689.4**	**(23.9)**	**-**	**-**	**665.5**
EBITDA	149.9	(19.3)	46.5	3.0	180.1
Depreciation, amortisation and impairment	(103.7)	-	-	-	(103.7)
EBIT	46.2	(19.3)	46.5	3.0	76.4
Net finance costs	(12.4)	-	-	-	(12.4)
Profit before income tax	**33.8**	**(19.3)**	**46.5**	**3.0**	**64.0**
Income tax expense	(9.6)	5.8	(13.0)	(0.9)	(17.7)
Profit for the year	**24.2**	**(13.5)**	**33.5**	**2.1**	**46.3**
Gross margin - percentage	**22.9%**				**22.3%**
Basic earnings per share - cents	**8.0**				**15.2**

Consolidated	Per Financial Statements $m	LDD Transaction Related Costs $m	Gains Relating to LDD Acquisition $m	Reckitt Termination $m	Kraft Legal Settlement $m	Other Costs $m	Normalised Outcome $m
Period ending 30 June 2021							
Revenue	2,073.4	-	-	(13.9)	-	-	2,059.5
Cost of sales	(1,608.2)	-	-	-	-	-	(1,608.2)
Gross profit	**465.2**	**-**	**-**	**(13.9)**	**-**	**-**	**451.3**
EBITDA	184.5	62.2	(71.8)	(29.8)	(9.3)	5.9	141.7
Depreciation, amortisation and impairment	(75.0)	-	-	-	-	2.1	(72.9)
EBIT	109.5	62.2	(71.8)	(29.8)	(9.3)	8.0	68.8
Net finance costs	(10.3)	1.6	-	-	-	-	(8.7)
Profit before income tax	**99.2**	**63.8**	**(71.8)**	**(29.8)**	**(9.3)**	**8.0**	**60.1**
Income tax expense	(21.2)	(8.7)	-	8.9	2.8	(2.3)	(20.5)
Profit for the year	**78.0**	**55.1**	**(71.8)**	**(20.9)**	**(6.5)**	**5.7**	**39.6**
Gross margin - percentage	**22.4%**						**21.9%**
Basic earnings per share - cents	**29.5**						**15.0**

Cash flow, net debt and group capital management

Cash flows

The Group generated the following cash flows in FY2022:

$ million	FY2022	FY2021
Operating activities	$158.2	$111.4
Investing activities	($63.8)	($546.7)
Financing activities	($136.7)	$499.6

Key operating activities generating cash flow in FY2022 were:

- net profit after tax and after adjusting back non-cash items of depreciation and amortisation of $127.9 million
- improvement in working capital of $73.2 million through strong receivable and inventory management partially offset by other non-working capital balances
- Included in the above amounts were cash receipts of $41.6 million from the termination of the Derrimut and MSD2 access and services agreement by Reckitt.

Key investing activities generating cash flow in FY2022 were:

- payments totalling $65.8 million for capital investment
- payments totalling $6.0 million for investments in software
- receipts of $7.0 million from sale of idle property, plant and equipment.

Key financing activities generating cash flow in FY2022 were:

- decrease in net borrowings of $83.0 million
- dividend payments of $28.7 million
- principal elements of lease payments $25.0 million.

Net debt at year end

The Group had consolidated net debt of $265.1 million as of 30 June 2022, compared to $324.9 million at 30 June 2021, a reduction of $59.8 million. The significant reduction in net debt arose from operating cash inflows of $158.2 million and includes an improvement in working capital of $73.2 million. This was partially offset by capital and software investment of $71.8 million, dividend payments of $28.7 million, and principal lease payments of $25.0 million.

Balance sheet capital management

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

- a primary Syndicated Debt Facility funded by four banks with Coöperatieve Rabobank U.A. (Rabobank Australia Branch) acting as agent throughout FY2022
- an Inventory Facility and a Trade Receivables Facility provided by Rabobank, and
- other guarantee facilities provided by Westpac.

In December 2021, the Group successfully refinanced the Syndicated Debt Facility expanding the number of participating banks from two to four. The Syndicated Debt Facility consists of two facilities: Facility 1 which has a limit of $270 million maturing in February 2025 and Facility 2 which has a limit of $180 million maturing in February 2027. In August 2022, the Group renewed the Rabobank Trade Receivables Facility, with an expiry date of 31 January 2024.

The normalised EBITDA to net debt leverage ratio reduced from 2.3 times to 1.8 times and is well within year end bank covenant requirement of 3.5 times. The Group expects its leverage ratio to continue within covenant requirements throughout FY2023 and is very well placed to meet future covenant obligations.

As announced in May 2022, the Group commenced an expression of interest campaign for the sale and leaseback of the property at 1 Vegemite Way, Port Melbourne. This property, at which Bega Cheese manufactures Vegemite, peanut butter and other products, is approximately 5 kilometres from the Melbourne CBD. The structure of the sale and leaseback proposals being sought would enable Bega Cheese to continue to manufacture Vegemite and other products at the site under a long-term lease arrangement. At 30 June 2022, this property has been classified as an asset held for sale on the Group's Balance Sheet.

Capital investment

The Group invested capital of $71.8 million (FY2021: $32.2 million) during FY2022. The Group's FY2022 capital works programme centred on:

- installation and commissioning of equipment to support capacity expansion of yoghurt production as well as new product innovation such as dairy free cheese and Simply Nuts squeeze
- a range of logistics and customer service projects focusing on upgrades to logistics centres, warehouse management systems, and transport management systems
- infrastructure upgrades across various sites
- modest investments in software to improve efficiencies in administration
- various projects to improve safety.

Risk management

The senior management team is responsible for ensuring an active and integrated risk management approach to ensure strategic and operational risks are identified, assessed and treated appropriately and in line with the approved risk appetite of the Bega Board.

The management team reports regularly to the Audit and Risk Committee (ARC) and the Board on the risk profile of the organisation and the treatment plans to manage them. The ARC is also responsible for overseeing and assessing the efficacy process of the Group's risk management.

The Board reviews the Group's risk management framework 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 emerging risks such as bio security, geopolitical factors and supply chain conditions.

The internal audit function provides independent and objective assurance on the adequacy and effectiveness of the Group's systems for risk management, internal control and governance, along with recommendations to improve the effectiveness and efficiency of these systems and processes.

In FY2022 the Group has refreshed the enterprise-wide risk management framework which manages risks through understanding and responding to the strategic and operational uncertainties the Group faces. The Board reflected the risk appetite statement as part of this process.

Over the past 12 months the Group have reviewed the approach to managing the effects of climate change and its impact. While climate impacts are managed via our existing risk framework and mitigated via robust business continuity planning, supply chain planning and supplier planning, the understanding of and response to the effect of climate change is constantly under renewal.

Bega has appointed an external partner to assist the Group to more fully integrate the risk of climate change into our risk and planning processes. The goal is to maximise the Group's ability to understand, manage and mitigate climate related risks and continue alignment with Task Force on Climate-Related Financial Disclosures (TCFD) reporting requirements. Using the TCFD themes of governance, strategy, risk and metrics Bega is examining the role the climate will play in the future both for on operations and those of dairy farmers and other core suppliers.

The review is underway and includes both physical and transition industry challenges associated with climate change. In addition to the review the Group are currently developing regional climate change and hazard scenarios over multiple trajectories and time horizons to further enhance the Group's response. This review and scenario planning is expected to be completed during FY2023.

Key strategic risks include:		
Source of Risk	**Risk overview**	**Mitigation Strategies**
Geopolitical tensions	Significant country and regional upheavals impacting normal lines of business	• Continue to focus on building diversified revenue streams • Develop and enhance strong relationships with trading partners • Support and strengthen on the ground presence in key markets • Commitment to ongoing development of product portfolio diversity • Supply chain resilience including multi-supplier arrangements
Product and consumer trends	Unable to forecast significant shifts away from profitable product categories that materially impact returns to the business	• Invest in consumer insights teams, research and trend analysis • Active new product development programs across the group • Build and develop strong retailer relationships • Sustainability program including carbon neutral products, and packaging innovation
Competitors	New market entrants enter the market and change the competitive landscape	• Commitment to ongoing brand support, brand growth, and brand extension plans • Maintain strong customer and supplier relationships
People retention	We fail to attract and retain top talent that gives us a competitive advantage in our sector	• Performance review and development process • Remuneration governance overseen by Board sub-committee • Talent recognition process • Data capture and analysis for regretful exits and unsuccessful contract offers
Milk pool	Milk volumes continue to decline in Australia increasing the relative price of milk and reducing ability to grow profitably	• Emphasis on maintaining strong farmer relationships and delivering a competitive farm gate milk price • More geographically diverse spread of site assets • Focus on higher returning dairy categories

Key operational risks include:		
Source of Risk	**Risk overview**	**Mitigation Strategies**
Technology and cyber security	Technology becomes aged and is not maintained and upgraded on a regular basis and is no longer able to support the business adequately Technology platforms across the business are breached	• Technology-based infrastructure renewal process • Operational technology is reviewed and upgraded in conjunction with industry standards • Enhancements to corporate system infrastructure is subject to regular review and approval processes • Technology processes aligned to the ISO 27001 Information Management System (ISMS) standard • Adoption of the NIST CSF (Cyber Security Framework) • Cyber security dashboard regularly reviewed by the Executive and Audit and Risk Committee • Real-time analysis of security alerts generated by applications and network hardware • Organisation-wide awareness and training programs • Enterprise-wide backup and system recovery solution
Business continuity	Robust business continuity plans for all sites and essential centralised services are not in place and the business is unable to respond to an event	• Business continuity plans referencing production and supply chain alternatives in the event of a disruption • Business continuity plans (BCP) that provide redundancy in terms of production, critical staff, and the procurement of materials • Emergency response plans regularly tested • System back-up plans in the event of a major loss of technology
Safety	Our operations fail to protect employees from physical harm or mental health issues	• Executive level performance measures include safety performance • Comprehensive safety management systems inclusive of incident management • Capital approval process that prioritises safety investment • Safety performance elevated as Board priority with monthly reporting and deep dives into root cause analysis • Engagement of external specialists to support ongoing improvement

Key operational risks include (cont.):		
Source of Risk	**Risk overview**	**Mitigation Strategies**
Food safety	Unsafe products are produced and leave our facilities causing harm to the public and significant reputational damage	• Immediate escalation of potential major incidents • Frequent external reviews of premises by external parties across a number of accreditations • Product recall process frequently tested and reviewed • Mature quality management system that is compliant to international standards • Appropriate food safety certifications held • Regular process of quality-based internal audits on third party warehouses and suppliers of materials
Bio security	Failure to prevent biosecurity hazards from entering product supply chain and causing production disruptions, limiting the ability to meet customer requirements	• Ensure alternative supplier arrangements are in place • Identified or potential Biohazard, virus and infestations are managed and monitored by specialist committees with protocols well understood • Engage government and industry bodies to help develop policy and ensure appropriate border controls and other controls are implemented

INNOVATION SPOTLIGHT

ENHANCING HEALTH THROUGH SCIENCE

HAPPi Day & Night Infant Formula and Toddler Milk

The first Australian nutrition range to reflect science showing that mother's milk changes between day and night.

The innovation improves consumers' lives by delivering growing children the right nutrition at the right time to help support normal growth and development during the day and while they sleep.

HAPPi Day and Night showcases Bega's 25 years expertise in the development and production of infant and children's nutritional products.

Directors' Report

Your Directors present the Annual Financial Report of the Bega Cheese Group for the year ended 30 June 2022

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 one of the largest dairy and food companies 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 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.

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

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

Former Directorships in the last 3 years:
- Nil

Peter Margin
BSc (Hons), MBA

Independent Director since September 2020 and Deputy Chairman

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

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

Other Directorships:
- Non-executive Director of Costa Group Holdings (ASX:CGC)
- Non-executive Director of Nufarm Ltd (ASX:NUF)
- Member of the Geminder Family Advisory Board

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

Raelene Murphy
B BUS, FCA, GAICD

Independent Director since June 2015

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

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

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

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

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

Terry O'Brien
FCPA, FAICD

Independent Director since September 2017

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

Terry was, from 2001 until 2017, the Managing Director of Simplot Australia Pty Limited, the US owned, but Australian centric, food processor and marketer managing leading Australian brands including Birds Eye, Edgell and John West. After his retirement in early 2017, Terry took up a number of Australian Company Board positions, recently reducing these to two. 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 Bundaberg Brewed Drinks Pty Limited

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

Rick Cross
B.Ag Sci (Hon), GAICD

Director since December 2011

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

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

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

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

Other Directorships:
- Nil

Former Directorships in the last 3 years:
- Nil

Patria Mann
B Ec, FAICD

Independent Director since September 2019

Patria is an experienced Non-executive Director with 20 years Board experience across various sectors and geographies. She has significant insight and understanding of market development, business transformation, including digital and technological change and M&A and financial transactions. She also brings strong ASX, audit, risk management and governance experience.

Patria qualified as a Chartered Accountant and was a former Partner at KPMG. She is a Fellow of the Australian Institute of Company Directors.

Other BGA Committees:
- Member of Audit & Risk Committee

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

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

Harper Kilpatrick
BSc Agriculture, MBA, FCA, GAICD

Director since April 2021

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

Other BGA Committees:
- Member of Audit & Risk Committee

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

Former Directorships in the last 3 years:
- Nil

Principal activities

The principal activity of the Bega Cheese Group in the course of the financial year was receiving, processing, manufacturing and distributing dairy and other food-related products. A number of key events in relation to the activities of the Group during the year ended 30 June 2022 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

	2022 $m	2021 $m
Interim ordinary dividend for the year ended 30 June 2022 of 5.5 cents	16.7	-
Final ordinary dividend for the year ended 30 June 2021 of 5.0 cents	15.1	-
Interim ordinary dividend for the year ended 30 June 2021 of 5.0 cents	-	15.1
Final ordinary dividend for the year ended 30 June 2020 of 5.0 cents	-	10.7

In addition to the above dividends, since the end of the financial year the Directors have recommended payment of a final ordinary dividend of $16.7 million (5.5 cents per fully paid share) to be paid on 23 September 2022.

Review of operations

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

Significant changes in the state of affairs

Other than that disclosed in the Chairman's report, the Chief Executive Officer's review and the Review of Financial Performance and Operations there have been no significant changes in the state of affairs of the Bega Cheese Group since the last Annual Report.

Indemnification and insurance premiums for officers

During the financial year, the Bega Cheese Group paid a premium in respect of a contract insuring the Directors and all executive officers of the Group and of any related body corporate against a liability incurred as such a Director or executive officer, not exceeding the extent permitted by law. The contracts of insurance prohibit disclosure of the nature of the liabilities and the amount of the premiums. The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Group or any related body corporate against a liability incurred as such an officer. This does not include remuneration or employment related benefits, any sum payable pursuant to a financial support direction or contribution notice issued in respect of any pension scheme, fines and pecuniary penalties for a deliberate or intentional act, nor amounts, which are prohibited to be paid by law.

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

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

Company secretary

The Company Secretary registered with the ASX is Brett Kelly FCA, GAICD. Brett Kelly was appointed to the position of Company Secretary in 2002. Brett Kelly holds a Bachelor of Commerce in Accounting and is a Chartered Accountant with 37 years' experience. He has also been a graduate member of the Australian Institute of Company Directors since 2006. Brett Kelly completed the Certificate in Governance and Risk Management with the Governance Institute of Australia in December 2011.

Meetings of Directors and Board Committees

Meetings of the Audit & Risk Committee

	Held and Eligible	Attended
Raelene Murphy	5	5
Patria Mann	5	5
Terry O'Brien	5	4
Harper Kilpatrick[1]	4	4

Meetings of the Nomination, Remuneration and Human Resources Committee

	Held and Eligible	Attended
Terry O'Brien	4	4
Rick Cross	4	4
Raelene Murphy	4	4

Meetings of the Milk Services Committee

	Held and Eligible	Attended
Rick Cross	3	3

Meetings of the Dairy and Drinks Integration Committee

	Held and Eligible	Attended
Peter Margin	9	9
Barry Irvin	9	9

Meetings of the Board of Directors

	Held and Eligible	Attended
Barry Irvin	18	18
Rick Cross	18	17
Patria Mann	18	18
Raelene Murphy	18	18
Terry O'Brien	18	18
Peter Margin	18	17
Harper Kilpatrick	18	18

1. Harper Kilpatrick was appointed a member of the Audit & Risk Committee on 1 September 2021.

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

Remuneration report (audited)

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

Dear Shareholders,

On behalf of the Board of Bega Cheese Limited (Bega Cheese or the Group), I am pleased to present you with our FY2022 Remuneration Report. At Bega, we remain committed to ensuring that we have remuneration structures in place which support our strategy and values ("Great Food, Great People, Great Aspirations and Greater Good") and that our reward outcomes align with sustainable long term value creation in the interests of our shareholders and other stakeholders.

We have continued with our upgraded report layout as introduced last year, maintaining the simpler, more readable, and more transparent format.

FY2022 performance & strategy highlights

FY2022 has been a transformative year for Bega Cheese as we bed down the January 2021 Lion Dairy and Drinks acquisition which essentially doubled the size of the Group and diversified the Group's portfolio by bringing together great brands including Bega Cheese, Vegemite, Dare, Farmers Union, Dairy Farmers, Yoplait, B honey, Big M, Masters, Juice Brothers and Berri.

With consideration to the significant impact of the COVID-19 pandemic and having absolute discretion to amend any component of the STI plan, the Board exercised discretion to open the gate for payments to be made under the STI plan despite the EBITDA gateway not being achieved. The Board in making this decision declined to make any payments relating to the EBITDA target but acknowledged the strong operating cash flow generated by the business in FY2022 and the significant success of the continued integration of the Lion Dairy and Drinks Business in FY2022. Payments were therefore restricted to the cash flow and personal objectives components of the Plan.

Linking remuneration outcomes with Group performance

Having regard to the Group performance highlights noted above:

- the FY2022 STI was achieved at 30% for the Executive Chairman, 31% for the Chief Executive Officer and 33% for the Chief Financial Officer. These outcomes reflect the strong operating cash flow result for the Group and achievements against each KMP's personal objectives under the STI plan. The EBITDA and Safety metrics were not achieved under the FY2022 STI plan. Refer Section "FY2022 STI outcomes" for further details.
- Performance rights granted under the FY2020-FY2022 and the FY2022-2024 Long Term Incentive (LTI) plans, tested at 30 June 2022, lapsed, reflecting that the performance hurdles of EPS and ROFE were not achieved. Refer section "LTI awards vesting in FY2022" for further details.

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

Conclusion

We are excited for the year ahead, with Dairy and Drinks employees now in our remuneration and performance review annual cycle as we continue our journey as the Great Australian Food Company. We look forward to further feedback from our shareholders on the FY2022 Remuneration Report.

Terry O'Brien

Chair of the Nomination,
Remuneration & Human Resources Committee

Key Management Personnel (KMP)

This report sets out the remuneration of the Executive Chairman and Non-executive Directors as well as the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). These individuals represent the KMP of the Group, being those accountable for planning, directing and controlling the affairs of the Group during the financial year to 30 June 2022.

The executive positions comprising KMP are determined by the NRHRC in consultation with the Executive Chairman and the CEO. There was no change to the composition of executive KMP or any changes to the composition of the Board.

Name	Position Held	Term
Executive KMP		
Barry Irvin	Executive Chairman	Full year
Paul van Heerwaarden	Chief Executive Officer	Full year
Peter Findlay	Chief Financial Officer	Full year
Non-Executive Directors		
Rick Cross	Non-Executive Director	Full year
Harper Kilpatrick	Non-Executive Director	Full year
Patria Mann	Non-Executive Director	Full year
Peter Margin	Deputy Chairman	Full year
Raelene Murphy	Non-Executive Director	Full year
Terry O'Brien	Non-Executive Director	Full year

Overview of FY2022 Executive Remuneration Framework

At Bega, our executive remuneration framework is designed to attract, motivate and retain highly qualified and experienced executives, who align with our values of "Great Food, Great People, Great Aspirations and Greater Good."

Our remuneration structures ensure linkage between pay outcomes and business performance. Our remuneration structures ensure that we:

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

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

Remuneration Element	Description
Fixed Remuneration 50% of Total Target Opportunity	Total fixed remuneration (TFR) comprises cash salary and superannuation contributions. TFR is not subject to specific performance or deliverables criteria and is generally considered fixed for the duration of the relevant annual review period. TFR is reviewed annually by the NRHRC regarding individual and Group performance, the skills and experience of the individual, the size and complexity of the individual's role and the KMP's total remuneration package. Further information can be found under FY2022 Fixed Remuneration outcomes.
Short-Term Incentive 25% of Total Target Opportunity	The objective of the Short-Term Incentive (STI) Plan is to reward participants for achieving annual goals linked with the Group's strategy. Payments under the STI Plan are subject to agreed performance outcomes as approved by the Executive Chairman and the NRHRC for the CEO and CFO. The performance outcomes for the Executive Chairman are approved by the Board. Further information can be found under FY2022 STI outcomes.
Long-Term Incentive 25% of Total Target Opportunity	The objective of the Long-Term Incentive (LTI) Plan is to reward participants for long-term performance and long-term value creation for shareholders. The LTI Plan is subject to the achievement of performance hurdles as determined by the NRHRC. Further information can be found under LTI awards granted in FY2022.

Linking remuneration outcomes with Group performance

The key indicators of Group performance and shareholder wealth relevant to the remuneration of KMPs that have been extracted from the FY2022 financial statements are as follows:

Key performance indicator		FY2022 Actual	FY2022 Normalised	FY2021 Actual	FY2021 Normalised	FY2020 Actual	FY2020 Normalised	FY2019 Actual	FY2019 Normalised	FY2018 Actual	FY2018 Normalised	FY2022 vs FY2021 Normalised Amount	FY2022 vs FY2021 Normalised %
Enterprise value	$m	1,422	1,422	2,087	2,087	1,190	1,190	1,309	1,309	1,617	1,617	(665)	(32)
Profit before tax	$m	33.8	64.0	99.2	60.1	31.0	46.2	8.4	44.9	50.9	69.0	3.9	6
Profit after tax	$m	24.2	46.3	78.0	39.6	21.3	31.9	4.4	30.9	28.8	44.0	6.7	17
Dividends per share	Cents	11.00	11.00	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	1.00	10
Earnings per share	Cents	8.0	15.2	29.5	15.0	9.9	14.9	2.1	14.9	15.6	23.9	0.2	1
Share price at 30 June	$	3.82	3.82	5.89	5.89	4.38	4.38	4.70	4.70	7.29	7.29	(2.07)	(35)
Total shareholder return	%	(33.28)	(33.28)	34.61	34.61	(4.81)	(4.81)	(33.01)	(33.01)	15.51	15.51	(67.89)	(196)
KMP total remuneration	$'000	3,853	3,853	4,446	4,446	2,940	2,940	3,025	3,025	3,658	3,658	(593)	(13)

FY2022 Fixed Remuneration outcomes

(a) Overview

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

(b) Review of TFR in 2022

Following the acquisition of Lion Dairy & Drinks in January 2021, which doubled the size of the Group and resulted in an increased scope and complexity of Executive KMP roles, the Group sourced current remuneration market data for comparable organisations based on the revenue and market capitalisation for the Group to ensure Bega continues to provide market competitive remuneration to our KMP. As there was an increase in the TFR for Executive KMP in February 2021 as reported in the FY2021 Remuneration Report there was no KMP remuneration review in FY2022, other than to reflect the increase in the annual maximum superannuation contribution base of $1,873.80 on 1 July 2021.

The following changes were made to the TFR of Executive KMP in FY2022:

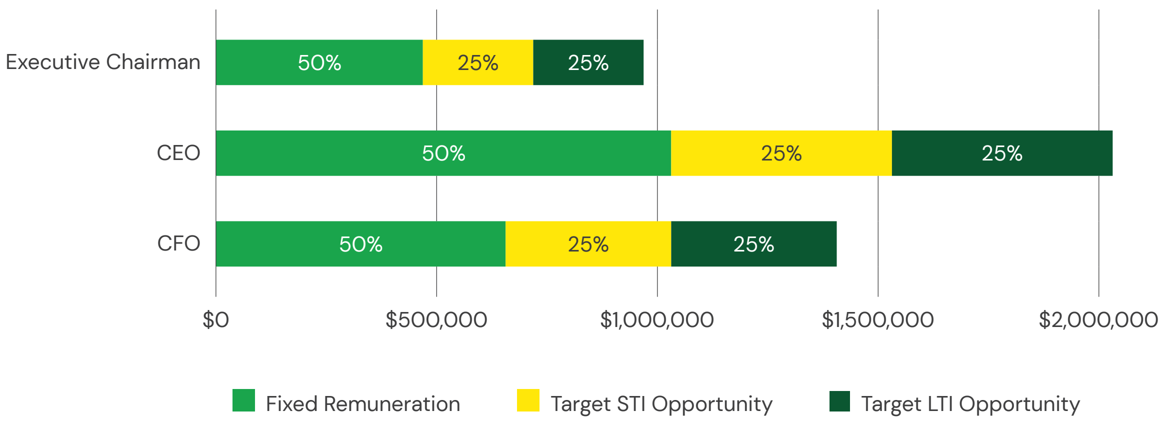
- **Executive Chairman:** consistent with previous years, the Board agreed that the TFR of the Executive Chairman be split as to his responsibilities as Chairman of the Board and as to his responsibilities as the most senior executive of the Group. Following the acquisition of Lion Dairy and Drinks, the Board increased the Chairman's remuneration to $212,000 per annum effective 1 July 2021 to reflect the increased scope and complexity of the role given his responsibilities as Chairman of the Group.

  The Executive Chairman's annual fixed remuneration is $703,873.80 comprising a TFR of $491,873.80 relating to his executive duties and $212,000 relating his role as Chairman of the Group.

- **CEO:** The annual fixed remuneration of the CEO is $1,018,873.80.

- **CFO:** The annual fixed remuneration of the CFO is $671,873.80.

The target pay mix of our Executive Chairman (excluding Chairman Board Fees), the CEO and CFO is set out below:



FY2022 STI outcomes

(a) Overview

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

The payment of any STI is subject to the personal performance of the individual and the Group against determined financial and non-financial criteria and is also subject to the achievement of Group and individual gateways i.e., if these gateways are not met, there will be no payment under the STI unless discretion is exercised by the Board. The maximum STI payable is 110% of target opportunity with 10% aligned to a stretch EBITDA target.

The EBITDA performance gateway for the STI Plan to open in FY2022 was not met. Having absolute discretion to amend any component of the STI plan, the Board exercised this discretion to open the gate for payments to be made under the STI Plan. KMP were subsequently assessed on their performance against measures of their respective STI objectives except for the EBITDA metric.

The target STI awards that Executive KMP were eligible to receive in respect of FY2022, as well as FY2022 STI outcomes, are set out in the table below. These outcomes reflect both individual and Group performance against key metrics.

Executive KMP	Target STI opportunity ($)	Target STI (% of fixed remuneration)	% of target FY2022 STI awarded	% of target FY2022 STI forfeited
Barry Irvin	$245,937	50%	30%	70%
Paul van Heerwaarden	$509,437	50%	31%	69%
Peter Findlay	$335,937	50%	33%	67%

(b) Performance against FY2022 STI measures

The below table sets out the FY2022 STI outcomes for the Executive Chairman. The NRHRC reviewed the performance of the Executive Chairman and recommended the following outcomes for Board approval. The recommended STI outcome was approved.

STI component	%	Barry Irvin, Executive Chairman
EBITDA	50%	0%
EBITDA STRETCH	10%	0%
Personal Objectives	50%	30%

The below table sets out the FY2022 STI outcomes for the CEO and CFO. The NRHRC reviewed the performance of the CEO and CFO and recommended the following outcomes for Board approval. The recommended STI outcomes were approved.

STI component	%	Paul van Heerwaarden, CEO	Peter Findlay, CFO
EBITDA	50%	0%	0%
EBITDA Stretch	10%	0%	0%
OH&S	15%	0%	0%
Free Cash Flow	15%	15%	15%
Personal Objectives	20%	16%	18%

(c) FY2022 STI terms – further detail

The STI for the Executive Chairman, the CEO and CFO are determined in accordance with the STI Plan as approved annually by the Board. The table below outlines the key terms and conditions applying to the STI Plans for the Executive KMP during FY2022.

Component	Detail
Target Opportunity	50% of total fixed remuneration for the Executive Chairman, CEO and CFO
Performance period	STI awards are assessed over the 12-month financial year. Any STI award payments are made after performance is tested at the end of the performance period.
Vehicle	All STI awards are delivered in cash.
Gateway	The Executive Chairman, CEO and CFO are only entitled to a payment under the STI Plan if specific Group performance and individual gateways are achieved. These gateways ensure that STI payments are aligned to the Group's key strategic and business objectives. The Group gateways are as follows: • no STI payments are made unless the Group achieves or exceeds targeted EBITDA (having accrued for the payout of the program in that year); and • no STI payments are made if during the year there is a major safety, quality or environmental event that was within the reasonable control of the Group. Individual gateways apply to the Chairman, CEO and CFO meaning that no STI payment is made unless the individual KMP executed their duties in a proper and effective manner by: • leading by example and being a role model for safety, quality, and the environment; • demonstrating collegiate behaviour and active participation in workgroup meetings; and • upholding and promoting the Company values and behaviours. The CEO and CFO need to meet additional individual performance gateways relating to participation in safety, quality and environmental programs as well as achieving a satisfactory annual performance review.
Personal Objectives	Each KMP has individual performance objectives. These personal objectives are clearly linked to key strategic areas set for the business. Performance objectives include improvement in Group safety performance, cost reduction, productivity improvements, and business growth.
Financial Objectives	The financial metrics 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 financial metrics. Each year the NRHRC makes a recommendation to the Board for approval in respect of the determined financial metrics for all KMP.
Performance Assessment	Each 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.
Governance	**Executive Chairman performance** At the end of the financial year the NRHRC reviews the performance of the Executive Chairman relating to his executive duties against determined criteria. **CEO performance** At the end of the financial year the Executive Chairman assesses the actual performance of the CEO against determined criteria. **CFO performance** At the end of the financial year, the CEO assesses the actual performance of the CFO against the determined criteria. STI outcome recommendations are submitted to the NRHRC prior to being submitted to the Board for final review and approval. Board approval is required before any STI is paid.
Board Discretion	The Board has absolute discretion to amend any component of the STI for KMP.

LTI awards granted in FY2022

(a) Overview

The group operates an LTI Plan, for the Executive Chairman, the CEO and the CFO..

The purpose of the LTI is to:

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

The FY2022 LTI grant will be assessed against both EPS and ROFE.

(b) FY2022 LTI awards

The table below outlines the face value of LTI awards granted to KMP during FY2022.

Executive KMP	Target LTI opportunity ($)	Target LTI opportunity (% of fixed remuneration)	Number of performance rights issued
Barry Irvin	$245,937	50% of fixed remuneration	N/A (see further detail below)
Paul van Heerwaarden	$509,437	50% of fixed remuneration	92,679
Peter Findlay	$335,937	50% of fixed remuneration	61,115

(c) FY2022 LTI key terms – further detail

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

Component	Detail
Overview	The FY2022 LTI Plan is designed to reward the Executive Chairman, the CEO and the CFO for long-term performance and long-term value creation for shareholders.
Instrument	• **Executive Chairman (cash)**: The Executive Chairman is a substantial shareholder of Bega Cheese and as a result his personal financial interests are already aligned with other shareholders. The opportunity to receive further shares in Bega Cheese under a share-based long-term incentive plan may be seen to provide the Executive Chairman with an opportunity to increase his shareholding in a manner not available to other substantial shareholders. As such, the Executive Chairman's LTI is to be paid in cash if the performance hurdles are met. • **CEO and CFO (performance rights)**: Given that the CEO and CFO are not substantial shareholders in Bega Cheese the Board has agreed that the best way to align the performance of the CEO and CFO with the interests of shareholders is for the outcome available under their long-term incentive to be based on performance rights over ordinary shares in the Company. The number of performance rights for the LTI Plan is calculated using the 'face value' method (see below). Subject to the satisfaction of the performance hurdles and the vesting conditions as set out below, each performance right issued under the plan is converted into one fully paid ordinary share in the Group.
Exercise price	Nil.
Allocation methodology	The face value of the performance rights for allocation purposes is calculated by taking the five-day volume weighted average price of Bega Cheese Limited shares at the Grant Date, and deducting the present value of expected dividends forgone over the duration of the FY2022 Plan (i.e. the dividends not received until the performance rights vest). The face value used to allocate the FY2022 LTI grant was $5.50. The fair value used for accounting purposes for the FY2022 LTI grant was $5.38.
Performance period	The FY2022 LTI grant was granted on 21 January 2022 and is subject to a performance period from 1 July 2021 to 30 June 2024.

Component	Detail
Performance measures	**Performance measures** The table below outlines the performance measures and vesting schedules applying to the FY2022 LTI Plan as it applies to the Executive Chairman, CEO and CFO.

Apportionment of Performance Rights

55% of the performance rights granted under the FY2022 LTI Plan are subject to a performance hurdle based on the achievement of certain Earnings Per Share (EPS) growth targets. The EPS growth targets are outlined below and apply over the entire Performance Period.

45% of the performance rights granted under the FY2022 LTI Plan are subject to a Return On Funds Employed (ROFE) performance hurdle, apportioned into three equal tranches of 15% that may vest each year of the plan where each annual target is met. The ROFE targets are set out in the below table for each year of the Performance Period.

The apportionment of performance rights is outlined in the table below:

Performance Hurdle	Apportionment of Performance Rights
EPS FY2022-FY2024	55%
ROFE FY2022	15%
ROFE FY2023	15%
ROFE FY2024	15%
Total	**100%**

Performance Measures and Targets

Earnings Per Share

Vesting percentage	EPS growth targets FY2022-FY2024
Nil vesting	below 23.5% over the performance period
50% vesting	at 23.5% over the performance period
Pro-rated vesting between 50% and 100%	between 23.5% and 27.5% over the performance period
100% vesting	at 27.5% or above over the performance period

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

Return on Funds Employed

Vesting percentage	FY2022 ROFE	FY2023 ROFE	FY2024 ROFE
Nil vesting	less than 6.5%	less than 7%	less than 8 .5%
50% vesting	6.5%	7%	8.5%
75% vesting	7.5%	8%	9.5%
100% vesting	8.5% or more	9% or more	10.5% or more

There will be no vesting under the LTI unless the KMP remain employed with the Group during the entire performance period of the relevant plan, unless the KMP is determined to be a "good leaver" under the rules of the plan.

Performance rights that have not vested as a result of performance measures not being met will automatically lapse, nor any cash payment made to the Executive Chairman in these circumstances.

Component	Detail
Dividend and voting rights	There are no voting or dividend rights until the performance rights vest and are exercised and converted into ordinary shares in the Group. Additional performance rights are not granted as a result of holding performance rights when dividends are declared by the Group.
Restrictions on transfer	The CEO and CFO may not transfer or encumber the performance rights with a security interest without the consent of the Board.
Malus	All performance rights will also lapse in other circumstances, including, but not limited to, where the CEO and CFO have acted fraudulently or dishonestly as determined by the Board.

LTI awards vesting in FY2022

(a) Overview

i. Long Term Incentive Plan FY2020 – FY2022

The FY2020 LTI award was tested in FY2022 (i.e. on 30 June 2022). 55% of this award was tested against EPS growth targets and 45% was tested against ROFE targets, with vesting subject to continued employment over the performance period.

The FY2020 LTI performance hurdles were not met and as a result no cash payment was made to the Executive Chairman and no performance rights vested into shares for the CEO or CFO. 82,599 performance rights lapsed for the CEO, and 21,450 performance rights lapsed for the CFO.

ii. Long Term Incentive Plan FY2022 – FY2024

The first ROFE tranche of the FY2022 LTI was tested in FY2022 (i.e. on 30 June 2022). 15% of the award was tested against the FY2022 ROFE target, with vesting subject to continued employment over the performance period.

The ROFE performance hurdle for the first tranche of the FY2022 LTI was not met, and as a result no cash payment was made to the Executive Chairman and no performance rights vested for the CEO or CFO. 13,901 performance rights lapsed for the CEO, and 9,167 performance rights lapsed for the CFO.

(b) Further detail

Further detail in respect of the terms of the FY2020 LTI Plan are set out below:

Component	Executive Chairman	CEO and CFO
Grant Dates	Not applicable	CEO: 20 April 2020, CFO: 14 August 2020
Vesting Dates	30 June 2022	
Performance Period	1 July 2019 – 30 June 2022	
Potential Value of the Plan	$207,498 Subject to the satisfaction of the performance hurdles and vesting conditions of the plan	CEO: $367,566, CFO: $95,453 Subject to the satisfaction of the performance hurdles and vesting conditions of the plan
Face Value	Not applicable	$4.45
Performance Rights issued	Not applicable	CEO: 82,599, CFO: 21,450

Executive KMP remuneration statutory table

Details of each of the Executive KMP's remuneration for FY2022 (calculated in accordance with the applicable Accounting Standards) are set out below.

		Short-term benefits		Post-employment benefits	Long-term benefits		Share-based payment	Total
	Year	Cash Salary and fees $	Short-term Incentive $	Superannuation $	Leave[1] $	Long-term Incentive[2] $	Equity settled performance rights[3] $	All amounts $
Executive Chairman								
Barry Irvin [4]	2022	680,306	73,781	23,568	29,351	(31,353)	-	775,653
	2021	725,332	163,146	25,000	81,321	72,234	-	1,067,033
Executives								
Paul van Heerwaarden	2022	995,306	157,925	23,568	76,741	-	(14,222)	1,239,318
	2021	844,392	408,273	25,000	191,704	-	128,462	1,597,831
Peter Findlay	2022	648,306	110,859	23,568	57,660	-	59,162	899,555
	2021	612,588	264,409	21,694	65,464	-	112,860	1,077,015
Total Executive Remuneration	**2022**	**2,323,918**	**342,565**	**70,704**	**163,752**	**(31,353)**	**44,940**	**2,914,526**
	2021	2,182,312	835,828	71,694	338,489	72,234	241,322	3,741,879

(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 FY2022 proportion of the cash incentive due to vest in 2023 ($4,251) and in 2024 ($55,695). This is offset by the prior period expense relating to the FY20 to FY22 LTI plan not vesting. 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 FY2022 amount of $44,940 in FY22 reflects current year expense of $248,668 for the FY21 to FY23 plan and the FY22 to FY24 plan; less the write-back of expense incurred in prior periods relating to unvested rights that were forfeited in respect of the FY20 to FY22 plan and the FY22 to FY24 plan of $203,728. 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.

Non-Executive Directors' remuneration

Remuneration policy and arrangements

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

- Market competitive: In setting Directors' fees, the Board takes into consideration the Group's existing remuneration policies, fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate caliber. The Board will also have regard to the size and complexity of the Group's operations, as well as the workload and time commitments and responsibilities of their roles.
- Independence and impartiality: To maintain independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Group performance (except for the Executive Chairman who participates in the STI and LTI plan based on his TFR which relates to his executive duties).

Aggregate fee pool

The Group pays Chair and Committee fees to the Non-executive Directors out of the maximum aggregate fee pool of $1,750,000 per annum approved by shareholders at the 2021 Annual General Meeting.

Fees and other benefits

Following the acquisition of Lion Dairy & Drinks in January 2021 the Group sourced current Board fee market data for comparable organisations based on the revenue and market capitalisation of the Group to ensure Bega continues to provide market competitive remuneration to our Directors. Directors' fees were adjusted effective 1 July 2021. The Chairman's fee below represents the Board Fees relating to his role as a Non-Executive Director.

The following table details the previous and current level of all Directors' fees and allowances, which are all inclusive of superannuation obligations:

	Rate as from 1/11/2020 $	Rate as from 1/7/2021 $
Board fees		
Chairman of the Board	188,200	212,000
Deputy Chairman	144,100	156,000
Director fees	94,100	106,000
Committee fees		
Chair of Audit & Risk Committee	24,000	24,000
Audit & Risk Committee member allowance	10,000	12,000
Chair of NRHRC	17,500	24,000
NRHRC member allowance	8,750	12,000
Chair of Milk Services Committee	10,000	15,000
Milk Services Committee member allowance	5,000	7,500
Chair of the Dairy and Drinks Integration Committee	130,000	130,000

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

Non-Executive Directors – Statutory remuneration

The fees paid or payable to the Non-Executive Directors of the Group in respect of FY2022 are set out in the table below.

	Year	Director Fees	Superannuation	Total
	$	$	$	$
Non-executive Directors				
Rick Cross	2022	120,909	12,091	133,000
	2021	102,103	9,700	111,803
Harper Kilpatrick	2022	105,455	10,545	116,000
	2021	20,097	1,909	22,006
Patria Mann	2022	107,273	10,727	118,000
	2021	94,505	8,978	103,483
Peter Margin	2022	262,431	23,569	286,000
	2021	149,036	30,227	179,263
Raelene Murphy	2022	129,091	12,909	142,000
	2021	115,282	10,952	126,234
Terry O'Brien	2022	129,091	12,909	142,000
	2021	110,487	17,062	127,549
Total Non-Executive Director Remuneration	**2022**	**854,250**	**82,750**	**937,000**
	2021	591,510	78,828	670,338

Remuneration governance

Overview of remuneration governance framework

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

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

An overview of the NRHRC responsibilities is set out below:

Role	Details
Recommendations to the Board	The Board takes recommendations from the NRHRC in setting the remuneration of Executive KMP. The NRHRC assesses and makes recommendations to the Board on any changes to the composition of the Board with a view to ensuring that it can operate effectively and efficiently and adequately discharge its responsibilities and duties. In formulating its recommendations, the NRHRC considers a range of factors including: • group financial performance • remuneration market data for KMP operating in similar listed organisations and industry sectors • remuneration components and weightings of fixed and variable remuneration • the performance levels and contribution of the individual KMP.

Role	Details
Advice and Assistance to the Board	The NRHRC advises and assists the Board to ensure that the Group: • has coherent human resources policies and practices which enable the Group to attract and retain Directors and executives who will create value for shareholders and that support the Group's wider objectives and strategies • fairly and responsibly remunerates Directors and executives, having regard to the performance of the Group, the performance of 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 is provided in the FY2022 Corporate Governance Statement published on the Bega Cheese Limited website **(www.begacheese.com.au/investors/corporate-governance)**.

Executive KMP service agreements

The Executive Chairman, in relation to his executive duties, the CEO and the CFO have service agreements, the key terms of which were unchanged as follows:

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

Use of remuneration consultants

In accordance with its Charter, the NRHRC can engage with remuneration consultants. No remuneration consultants were engaged in FY2022. No remuneration recommendations as defined in section 9B of the Corporations Act 2001 were obtained in FY2022.

Other matters

Related party transactions

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

	CONSOLIDATED	
	2022 $m	**2021** $m
Payments made by the Group during the year	6,304,708	5,621,827
Sales made by the Group during the year	358,641	406,131
Rental income received by the Group during the year	53,649	11,305
Amounts payable at year end	504,206	255,894
Amounts receivable at year end	43,451	50,708

No Executive KMP or their related parties held any loans with the Group during FY2022.

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 follows:

2022 – Numbers of ordinary shares	Balance at start of year	Shares purchased	STI shares awarded	Shares sold	Balance at the end of the year
Executive Chairman					
Barry Irvin	2,018,841	20,000	-	-	2,038,841
Executive KMP					
Paul van Heerwaarden	122,073	-	34,875	-	156,948
Peter Findlay	20,243	-	23,098	(20,243)	23,098
Non-executive Directors					
Rick Cross	198,400	4,166	-	-	202,566
Harper Kilpatrick	3,669	14,161	-	-	17,830
Patria Mann	24,445	5,555	-	-	30,000
Peter Margin	-	14,357	-	-	14,357
Raelene Murphy	10,956	4,000	-	-	14,956
Terry O'Brien	17,772	5,541	-	-	23,313

Likely developments and expected results of operations

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

Rounding of amounts

The Group is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that instrument to the nearest one hundred thousand dollars, or in certain cases, to the nearest dollar.

Matters subsequent to the end of the financial year

On 26 August 2022, the Directors declared a final fully franked dividend of 5.5 cents per share, which represents a distribution of $16.7 million.

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

Auditor

Details of the amounts paid or payable to PricewaterhouseCoopers (PwC) Australia for audit and non-audit services provided during the financial year are set out in note 32.

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 56.

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

Barry Irvin
Executive Chairman
Bega

Raelene Murphy
Independent Director
Melbourne

26 August 2022

INNOVATION SPOTLIGHT

EXPANDING BRAND OFFER IN FOODSERVICE

Dairy Farmers Cheese, Butter and Cream Cheese Foodservice Range

For over 120 years, Dairy Farmers has been a dairy brand synonymous with quality, community support and industry sustainability and is now available in an expanded range for foodservice customers.

The expansion of the Dairy Farmer's foodservice range builds brand scale in this channel and increases the opportunity for consumers to enjoy Dairy Farmer's products in more outlets and occasions.

This innovation is an example of Bega's strategy to invest in its market-leading brands and strengthen its brand portfolio and distribution network capability.

Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the year ended 30 June 2022, 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.

Sam Lobley
Partner
PricewaterhouseCoopers

Melbourne
26 August 2022

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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 as otherwise detailed in the Corporate Governance Statement.

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Consolidated Statement of Comprehensive Income

	Notes	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Revenue	5	3,009.9	2,073.4
Cost of sales		(2,320.5)	(1,608.2)
Gross profit		**689.4**	**465.2**
Other revenue	5	11.4	25.3
Other income	5	6.4	13.5
Distribution expense		(279.3)	(158.7)
Marketing expense		(104.9)	(65.1)
Occupancy expense		(52.8)	(26.6)
Administration expense		(179.3)	(150.3)
Acquisition related expenses	1e	(46.5)	(62.2)
Impairment of assets	6	-	(2.2)
Finance costs	6	(12.5)	(10.4)
Share of net profit of equity accounted investments		1.9	1.2
Gain on bargain purchase	26	-	69.5
Profit before income tax		**33.8**	**99.2**
Income tax expense	7a	(9.6)	(21.2)
Profit for the period attributable to owners of Bega Cheese Limited		**24.2**	**78.0**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Cash flow hedges, net of tax		2.7	(1.3)
Exchange differences on translating foreign operations		0.2	-
Total other comprehensive income		**2.9**	**(1.3)**
Total comprehensive income for the period attributable to owners of Bega Cheese Limited		**27.1**	**76.7**

	2022 Cents	2021 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:		
Basic earnings per share	**8.0**	29.5
Diluted earnings per share	**8.0**	29.4

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

Consolidated Balance Sheet

	Notes	CONSOLIDATED 2022 $m	2021(*) $m
ASSETS			
Current assets			
Cash and cash equivalents	20	44.9	87.2
Trade and other receivables	8	274.7	348.7
Derivative financial instruments		2.7	1.1
Inventories	10	317.6	345.0
Current tax assets		3.0	13.3
Assets held for sale	11	60.5	-
Other current assets	9	26.9	37.9
Total current assets		**730.3**	**833.2**
Non-current assets			
Property, plant and equipment	11	844.0	911.6
Right-of-use assets	12	109.9	103.4
Deferred tax assets	7e	38.9	22.7
Other assets	9	-	0.1
Intangible assets	13	588.1	589.5
Investments accounted for using the equity method	25	47.6	46.6
Total non-current assets		**1,628.5**	**1,673.9**
Total assets		**2,358.8**	**2,507.1**
LIABILITIES			
Current liabilities			
Trade and other payables	14	449.2	477.4
Other liabilities	15	16.5	42.8
Derivative financial instruments		1.7	2.1
Lease liabilities	12	21.0	25.5
Current tax liabilities		10.3	18.4
Provisions	17	107.3	119.8
Total current liabilities		**606.0**	**686.0**
Non-current liabilities			
Borrowings	16	308.5	391.9
Lease liabilities	12	93.3	79.1
Other liabilities	15	-	0.5
Provisions	17	16.9	24.6
Deferred tax liabilities	7e	71.7	58.5
Total non-current liabilities		**490.4**	**554.6**
Total liabilities		**1,096.4**	**1,240.6**
Net assets		**1,262.4**	**1,266.5**
EQUITY			
Share capital	18a	878.2	875.7
Reserves	19	26.9	25.9
Retained earnings		357.3	364.9
Capital and reserves attributable to owners of Bega Cheese Limited		**1,262.4**	**1,266.5**
Total Equity		**1,262.4**	**1,266.5**

(*) The 30 June 2021 balance sheet has been restated to reflect the final fair value of the purchase price allocation of Bega Dairy and Drinks, which was acquired on 25 January 2021. Refer to note 26 for further details.
The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

Consolidated	Share capital $m	Reserves $m	Retained earnings $m	Total $m
Balance as at 1 July 2020	480.5	20.8	312.7	814.0
Profit for the period	-	-	72.2	72.2
Other comprehensive income/(expense) for the period	-	(1.3)	-	(1.3)
Transactions with owners in their capacity as owners:				
– Issue of shares, net of transaction costs and tax (note 18)	395.2	-	-	395.2
– Share-based payments relating to incentives	-	6.4	-	6.4
– Dividends provided for or paid	-	-	(25.8)	(25.8)
Balance as at 30 June 2021	**875.7**	**25.9**	**359.1**	**1,260.7**
Balance as at 1 July 2021	875.7	25.9	359.1	1,260.7
Purchase price acquisition adjustment (1)	-	-	5.8	5.8
Profit for the period	-	-	24.2	24.2
Other comprehensive income/(expense) for the period	-	2.9	-	2.9
Transactions with owners in their capacity as owners:				
– Issue of shares (note 18)	3.1	-	-	3.1
– Share-based payments relating to incentives	-	(1.9)	-	(1.9)
– Dividends provided for or paid	-	-	(31.8)	(31.8)
– Tax effect of prior period share issue transaction costs	(0.6)	-	-	(0.6)
Balance as at 30 June 2022	**878.2**	**26.9**	**357.3**	**1,262.4**

(1) *The adjustments relating to the change in the provisional bargain purchase on acquisition of Bega Dairy and Drinks has been reflected in the opening balance of retained earnings as at 1 July 2021. Refer to note 26 for further details. An additional adjustment to prior period income tax of $4m has also been reflected through opening retained earnings.*

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

Consolidated Statement of Cash Flows

	Notes	CONSOLIDATED 2022 $m	2021 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		3,342.8	2,221.7
Payments to suppliers and employees inclusive of goods and services tax		(3,179.2)	(2,086.5)
Net receipts/(payments) from/to Trade Receivables Facility		18.9	(12.7)
Interest and other costs of financing paid		(12.5)	(10.5)
Interest received		0.1	0.1
Income taxes paid	7f	(11.9)	(0.7)
Net inflow from operating activities	20	**158.2**	**111.4**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(65.8)	(22.2)
Net proceeds from sale of property, plant and equipment		7.0	-
Payments for intangible assets		(6.0)	(10.0)
Payment for acquisition of subsidiaries, net of cash acquired		-	(514.5)
Distributions received from associate		1.0	-
Net outflow from investing activities		**(63.8)**	**(546.7)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		310.0	205.0
Repayment of borrowings		(393.0)	(60.0)
Principal elements of lease payments		(25.0)	(12.3)
Net proceeds from issue of shares		-	390.2
Dividends paid to Bega Cheese Limited's shareholders	4	(28.7)	(23.3)
Net (outflow)/inflow from financing activities		**(136.7)**	**499.6**
Net (decrease)/increase in cash and cash equivalents		**(42.3)**	**64.3**
Cash and cash equivalents at the beginning of the year		87.2	22.9
Cash and cash equivalents at the end of the year	20	**44.9**	**87.2**

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 FY2022 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 FY2022 final fully franked dividend to be paid on 23 September 2022 must be recorded by the registry by 5:00 pm on 1 September 2022 to be effective for that dividend.

B. Revised Syndicated Facility

In December 2021, the Group entered into a revised syndicated debt facility structure (Refer to "Note 22d" for further details).

C. Fonterra legal action

As previously reported, in 2017, Fonterra Brands Australia commenced legal proceedings in the Supreme Court of Victoria in relation to the scope of the 2001 trade mark licence between Bega Cheese and Fonterra. On 25 February 2021, the Supreme Court of Victoria held that Bega Cheese is entitled to use the Bega trade mark, as owner of the trade marks, on its products, outside of the scope of the Fonterra licence, without Fonterra's consent. Fonterra has an ongoing exclusive licence to use the Bega trade mark on natural cheddar cheese, processed cheddar cheese, string cheese and butter. Bega Cheese's counter claims in respect of alleged breaches of the trade mark licence by Fonterra were dismissed. Neither party appealed the decision. Fonterra was ordered to pay Bega Cheese's costs in relation to the claim. Bega Cheese was ordered to pay Fonterra's costs in relation to the counterclaim. The parties have now settled the claims in relation to costs. This resolves all outstanding issues relating to this matter.

D. Termination of customer contract

In FY2021, one of the Group's major customers, Reckitt, notified the Group that two arrangements would cease ahead of their contractual expiry date. The first related to an access and services agreement at a plant in Derrimut which ended in October 2021, prior to its original end date of December 2026. The second relates to the Tatura MSD2 dryer access and services agreement that ended in January 2022, prior to its original end date of December 2026. A summary of revenue and other income recognised, and cash received is shown below

Summary of termination fee recognition	MSD2 $m	Derrimut $m	TOTAL $m
Recognised in FY2021	14.3	15.5	29.8
Recognised in FY2022	20.1	5.6	25.7
Total	**34.4**	**21.1**	**55.5**

Summary of termination fee cash receipts	MSD2 $m	Derrimut $m	TOTAL $m
Received in FY2021	8.6	5.3	13.9
Received in FY2022	25.8	15.8	41.6
Total	**34.4**	**21.1**	**55.5**

E. Transaction costs related to the acquisition of Lion Dairy and Drinks

Following the acquisition of Lion Dairy and Drinks ("LDD") in FY2021, the Group incurred costs in relation to the acquisition and integration of LDD totalling $46.5 million (FY2021 $63.8 million), which included excess transition services arrangement charges from Lion, consultancy and legal, redundancy, separation costs, and project team resourcing. The acquisition costs have been recognised in the Group's consolidated statement of comprehensive income for the respective financial years.

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

2. Segment information

A. Description of segments

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

The Group has two reporting segments:

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

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

The CODM assesses the performance of the reporting segments based on a measure of EBITDA. In addition, the CODM takes 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 2022 is as follows:

	Branded $m	Bulk $m	Unallocated overheads $m	Inter-segment eliminations $m	Group Total $m
Year ending 30 June 2022					
Revenue	2,480.9	735.5	-	(206.5)	3,009.9
EBITDA	107.8	80.3	(39.8)	1.6	149.9
Depreciation, amortisation and impairment					(103.7)
EBIT					46.2
Interest income					0.1
Interest expense					(12.5)
Profit before income tax					**33.8**
Income tax expense					(9.6)
Profit for the year					**24.2**
Impact of current year events on profit before tax					
LDD transaction related costs	(27.2)	-	(19.3)	-	(46.5)
Reckitt termination	-	19.3	-	-	19.3
Other costs	-	-	(3.0)	-	(3.0)

2. Segment information (cont.)

Prior period comparative segment information as follows:

	Branded $m	Bulk $m	Unallocated overheads $m	Inter-segment eliminations $m	Group Total $m
Year ending 30 June 2021					
Revenue	1,519.9	897.5	-	(344.0)	2,073.4
EBITDA	94.5	98.9	(79.7)	70.8	184.5
Depreciation, amortisation and impairment					(75.0)
EBIT					109.5
Interest income					0.1
Interest expense					(10.4)
Profit before income tax					**99.2**
Income tax expense					(21.2)
Profit for the year					**78.0**
Impact of current year events on profit before tax					
Acquisition related expenses	(3.9)	-	(59.9)	-	(63.8)
Gain on bargain purchase	-	-	-	71.8	71.8
Reckitt termination	-	29.8	-	-	29.8
Kraft legal settlement	-	-	9.3	-	9.3
Other costs	-	(2.1)	(5.9)	-	(8.0)

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 2022 $m	2021 $m
Sales to external customers in Australia		
Branded	2,249.0	1,269.6
Bulk	248.2	252.6
Total sales to external customers in Australia	2,497.2	1,522.2
Sales to external customers in other countries		
Branded	231.9	250.3
Bulk	280.8	300.9
Total sales to external customers in other countries	512.7	551.2
Total sales to external customers	**3,009.9**	**2,073.4**

3. Earnings per share

	CONSOLIDATED	
	2022 Cents	**2021** Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent:		
Basic earnings per share	8.0	29.5
Diluted earnings per share	8.0	29.4
	2022 Number	**2021** Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	303,210,210	264,273,802
Adjustments for calculation of diluted earnings per share:		
Contingent employee incentives	749,125	646,341
Shares used as the denominator in calculating diluted earnings per share	303,959,335	264,920,143
	2022 $m	**2021** $m
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	24.2	78.0

4. Dividends to shareholders

	CONSOLIDATED	
	Full year 2022 $m	**Full year 2021** $m
Recognised amounts:		
2022 Interim dividend of 5.50 cents	16.7	-
2021 Final dividend of 5.00 cents	15.1	-
2021 Interim dividend of 5.00 cents	-	15.1
2020 Final dividend of 5.00 cents	-	10.7
Total dividend	**31.8**	**25.8**
Issue of shares under the DRP	(3.1)	(2.5)
Net cash outflow	**28.7**	**23.3**
Unrecognised amounts:		
2022 Final dividend of 5.50 cents	16.7	-
2021 Final dividend of 5.00 cents	-	15.1

The dividends paid in 2022 and 2021 were fully franked. The 2022 final dividend will be fully franked.

4. Dividends to shareholders (cont.)

	CONSOLIDATED		COMPANY	
	2022 $m	2021 $m	2022 $m	2021 $m
Value of the dividend franking account	100.3	102.2	52.1	15.8

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	
	2022 $m	2021 $m
Sale of goods	2,909.0	1,990.4
Services	100.9	83.0
Total revenue	**3,009.9**	**2,073.4**
Other revenue		
Royalties	8.4	8.2
Contract termination fees	1.6	15.9
Other	1.4	1.2
Total other revenue	**11.4**	**25.3**
Other income		
Rental income	0.2	1.0
Interest income	0.1	0.1
Legal settlement proceeds	-	9.3
Gain on equity interest	-	2.3
Gain on sale of land	1.7	-
Gain from early lease termination	1.3	-
Other	3.1	0.8
Total other income	**6.4**	**13.5**

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 34e for further explanation of the Group's revenue recognition policy.

Revenues of approximately $1.1 billion (2021: $623.8 million) are concentrated in a small number of external customers.

6. Expenses

Profit before income tax includes the following specific expenses:

	CONSOLIDATED	
	2022 $m	2021 $m
Net (profit)/loss on disposal of property, plant and equipment	(1.7)	0.1
Write-off of intangible assets	-	(0.4)
Decrease in inventory provisions	(0.3)	(0.8)
Decrease of bad and doubtful debts provision	(2.9)	(0.1)
Depreciation of property, plant and equipment	63.7	49.0
Depreciation of right-of-use assets	28.9	12.8
Impairment of property, plant and equipment	-	2.2
Amortisation of intangible assets	11.1	11.0
Trade Receivables Facility costs	2.2	2.5
Employee benefit expense:		
- Defined contribution superannuation expense	35.9	23.7
- Other employee benefits expense	423.0	324.9
Total employee benefit expense	**458.9**	**348.6**
Finance costs:		
- Interest on bank loans	5.0	4.7
- Lease liability interest	4.0	2.1
- Other finance costs	3.5	3.6
Total finance costs	**12.5**	**10.4**

7. Income tax

	CONSOLIDATED	
	2022 $m	2021 $m
A. INCOME TAX EXPENSE		
Current tax (expense)	(12.6)	(14.7)
Deferred tax benefit/(expense) from the origination and reversal of temporary differences	4.7	(4.6)
Adjustments recognised in the current year in relation to tax of prior years	(1.7)	(1.9)
Total income tax expense	**(9.6)**	**(21.2)**

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

7. Income tax (cont.)

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX EXPENSE		
Profit from continuing operations before income tax	33.8	99.2
Tax (expense) at the Australian tax rate of 30% (2021 - 30%)	(10.1)	(29.8)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	1.6	21.8
Non-deductible expenses	(0.2)	(10.9)
Other assessable income	(1.4)	(0.2)
	-	10.7
Tax incentives	0.4	0.2
Adjustments in respect of prior year	(1.2)	(1.9)
De-recognition of previously recognised tax losses	-	(0.2)
Previously unrecognised tax losses used to reduce deferred tax expense	12.0	11.6
Current year tax losses not recognised	(10.7)	(11.8)
Total income tax expense	**(9.6)**	**(21.2)**

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
C. AMOUNTS RECOGNISED THROUGH OTHER COMPREHENSIVE INCOME		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but through other comprehensive income in respect of:		
Movement in hedging reserve	(1.1)	0.6
Total amount recognised through other comprehensive income	**(1.1)**	**0.6**

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
D. AMOUNTS RECOGNISED THROUGH EQUITY		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but through equity in respect of:		
Share issue costs - net of adjustment in respect of prior year	(0.6)	2.5
Total amount recognised through equity	**(0.6)**	**2.5**

7. Income tax (cont.)

E. MOVEMENTS IN DEFERRED TAX

Movements in deferred tax in the year are detailed below:

Consolidated	Opening balance $m	Charged to income $m	Charged to equity $m	Closing balance $m
Year ending 30 June 2022				
Deferred tax assets				
Doubtful debts	1.9	(1.7)	-	0.2
Inventories	6.2	(5.8)	-	0.4
Sundry accrued expenses	7.5	(3.6)	-	3.9
Black hole expenditure	-	1.7	-	1.7
Employee provisions	19.9	9.9	-	29.8
Other provisions	8.8	(4.7)	-	4.1
Leased assets	(0.8)	1.8	-	1.0
Share issue costs	3.3	(0.5)	(0.6)	2.2
Fair value of derivatives	0.8	-	(1.1)	(0.3)
Tax losses	-	8.4	-	8.4
Other	0.6	(0.1)	-	0.5
Total deferred tax assets	48.2	5.4	(1.7)	51.9
Deferred tax (liabilities)				
Property, plant and equipment	(15.7)	2.4	-	(13.3)
Investments	(4.3)	(0.5)	-	(4.8)
Brand names	(53.4)	(2.7)	-	(56.1)
Software	(9.1)	-	-	(9.1)
Other	(1.5)	0.1	-	(1.4)
Total deferred tax (liabilities)	(84.0)	(0.7)	-	(84.7)
Total deferred tax	**(35.8)**	**4.7**	**(1.7)**	**(32.8)**

7. Income tax (cont.)

E. MOVEMENTS IN DEFERRED TAX (cont.)

Consolidated	Opening balance $m	Acquisition $m	Charged to income $m	Charged to equity $m	Closing balance $m
Year ending 30 June 2021					
Deferred tax assets					
Doubtful debts	0.2	1.7	-	-	1.9
Inventories	2.9	4.6	(1.3)	-	6.2
Sundry accrued expenses	4.4	2.1	1.0	-	7.5
Black hole expenditure	2.8	-	(2.8)	-	-
Employee provisions	16.0	2.6	1.3	-	19.9
Other provisions	-	8.8	-	-	8.8
Leased assets	0.4	(0.6)	(0.6)	-	(0.8)
Share issue costs	0.8	-	-	2.5	3.3
Fair value of derivatives	-	-	0.2	0.6	0.8
Tax losses	5.8	-	(5.8)	-	-
Other	-	0.3	0.3	-	0.6
Total deferred tax assets	33.3	19.5	(7.7)	3.1	48.2
Deferred tax (liabilities)					
Property, plant and equipment	(16.4)	-	0.7	-	(15.7)
Investments	-	(4.3)	-	-	(4.3)
Brand names	(42.5)	(11.2)	0.3	-	(53.4)
Software	(11.3)	-	2.2	-	(9.1)
Other	(1.4)	-	(0.1)	-	(1.5)
Total deferred tax (liabilities)	(71.6)	(15.5)	3.1	-	(84.0)
Total deferred tax	**(38.3)**	**4.0**	**(4.6)**	**3.1**	**(35.8)**

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

	CONSOLIDATED 2022 $m	2021 $m
Deferred tax assets	38.9	22.7
Deferred tax liabilities	(71.7)	(58.5)
Net deferred tax liabilities	**(32.8)**	**(35.8)**

Unused tax losses for which no deferred tax asset has been recognised as at 30 June 2022 are $61.2 million (2021: $55.1 million), the potential tax benefit of this at 30% is $18.4 million (2021: $16.5 million). Unused temporary differences for which no deferred tax asset has been recognised as at 30 June 2022 are $48.0 million (2021: $64.3 million) (tax effected). Unused capital losses for which no deferred tax asset has been recognised as at 30 June 2022 are $13.7 million (2021: $13.7 million), the potential tax benefit of this at 30% is $4.1 million (2021: $4.1 million).

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. The Group is not consolidated for tax purposes and has undertaken an analysis regarding the future taxable income of each legal entity on a stand-alone basis.

	CONSOLIDATED 2022 $m	2021 $m
F. INCOME TAXES PAID		
Income taxes paid is included in the Consolidated Statement of Cash Flows as follows:		
Income taxes (paid) included in operating activities	(11.9)	(0.7)
Total income taxes (paid)	**(11.9)**	**(0.7)**

8. Trade and other receivables

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Current assets		
Trade receivables	241.3	303.8
Allowance for impairment of receivables	(6.5)	(9.4)
Net trade receivables	234.8	294.4
Goods and services tax (GST) receivable	21.2	23.3
Accrued revenue	5.2	5.8
Amounts receivable under Trade Receivables Facility	6.3	6.8
Other debtors	7.2	18.4
Total trade and other receivables	**274.7**	**348.7**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 to 60 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 34.

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

The Group utilises a Trade Finance Facility ('Trade Receivables Facility') with the Coöperatieve Rabobank U.A. (Australia Branch) (Rabobank) whereby it may purchase receivables from the Group at a discount. This facility is utilised by the Group as a primary source of working capital. The maximum available at any time under the facility was $200.0 million during the financial year. Most eligible receivables sold to Rabobank are insured by the Group with the Group retaining a continuing involvement asset of 10%, representing its maximum exposure under the facility. 90% of the value of receivables sold by the Group into this facility are de-recognised as an asset as the contractual rights to cashflows from these receivables have expired on acceptance of the sale to Rabobank. The Trade Receivables Facility is a $200m facility with half of it on fully committed basis and was extended to 31 January 2024 in August 2022. The funded value of the Group's Trade Receivables Facility was $156.3 million as at 30 June 2022 (2021: $136.9 million).

9. Other assets

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Current assets		
Prepayments	10.8	12.8
Trade Receivables Facility continuing involvement asset	14.0	16.1
Other assets	2.1	9.0
Total current other assets	26.9	37.9
Non-current assets		
Prepayments and other	-	0.1
Total non-current other assets	-	0.1
Total other assets	**26.9**	**38.0**

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	
	2022 $m	2021 $m
Raw materials and work in progress	143.5	169.0
Finished goods	160.6	166.1
Maintenance spares	49.3	46.0
Provisions	(35.8)	(36.1)
Carrying amount of inventories at lower of cost or net realisable value	**317.6**	**345.0**

11. Property, plant and equipment

	CONSOLIDATED	
	2022 $m	2021 $m
Land and buildings		
At cost	425.0	490.5
Accumulated depreciation	(56.0)	(50.2)
Total land and buildings	369.0	440.3
Plant and equipment		
At cost	830.1	814.1
Accumulated depreciation	(406.4)	(378.6)
Total plant and equipment	423.7	435.5
Construction in progress	51.3	35.8
Total property, plant and equipment	**844.0**	**911.6**

The movements in property, plant and equipment are:

Consolidated	Construction in progress $m	Land and buildings $m	Plant and equipment $m	Total $m
Year ending 30 June 2022				
Balance at the beginning of the financial year	35.8	417.3	455.4	908.5
Purchase price acquisition adjustment	-	23.0	(19.9)	3.1
Capital expenditure	65.7	-	-	65.7
Disposals	-	(5.2)	(0.1)	(5.3)
Depreciation	-	(10.7)	(53.0)	(63.7)
Assets classified as held for sale	-	(60.5)	-	(60.5)
Transfers	(50.2)	5.1	41.3	(3.8)
Balance at the end of the financial year	**51.3**	**369.0**	**423.7**	**844.0**
Year ending 30 June 2021				
Balance at the beginning of the financial year	9.6	164.0	272.4	446.0
Acquisitions through business combinations	17.9	260.1	209.0	487.0
Capital expenditure	26.8	-	-	26.8
Disposals	-	-	(0.1)	(0.1)
Depreciation	-	(8.3)	(40.7)	(49.0)
Impairment	-	-	(2.2)	(2.2)
Transfers	(18.5)	1.5	17.0	-
Balance at the end of the financial year	**35.8**	**417.3**	**455.4**	**908.5**

11. Property, plant and equipment (cont.)

Assets held for sale

	CONSOLIDATED 2022 $m	2021 $m
Land and Buildings held for sale	60.5	-

In May 2022, the Group commenced an expression of interest campaign for the sale and leaseback of the Land and Buildings at 1 Vegemite Way, Port Melbourne. This property manufactures Vegemite, peanut butter and other products. The sale is anticipated to be completed before the end of June 2023.

12. Leases

The balance sheet shows the following amounts relating to leases:

	CONSOLIDATED 2022 $m	2021 $m
Right-of-use assets		
At cost	151.3	121.7
Accumulated depreciation	(41.4)	(18.3)
Total right-of-use assets	**109.9**	**103.4**

	CONSOLIDATED 2022 $m	2021 $m
Right-of-use assets		
Properties	87.5	82.5
Equipment	19.2	17.0
Motor vehicles	3.2	3.9
Total right-of-use assets	**109.9**	**103.4**

Additions and remeasurements to the right-of-use assets during the 2022 financial year were $40.2 million (2021: $14.0 million).

	CONSOLIDATED 2022 $m	2021 $m
Lease liabilities		
Current	21.0	25.5
Non-current	93.3	79.1
Total lease liabilities	**114.3**	**104.6**

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

	CONSOLIDATED 2022 $m	2021 $m
Depreciation charge of right-of-use assets	28.9	12.8
Interest expense (included in finance cost)	4.0	2.1

The total cash outflow for leases in 2022 was $29.0 million (2021: $14.4 million).

13. Intangible assets

	CONSOLIDATED 2022 $m	2021 $m
Brands	177.6	177.6
Water rights	5.6	5.6
Software	56.2	57.0
Goodwill	347.4	347.4
Other	1.3	1.9
Total intangible assets	**588.1**	**589.5**

Consolidated	Brands $m	Software $m	Water Rights $m	Goodwill $m	Other $m	Total $m
Year ending 30 June 2022						
Balance at the beginning of the financial year	177.6	57.0	5.6	347.4	1.9	589.5
Additions	-	5.9	-	-	-	5.9
Amortisation	-	(10.5)	-	-	(0.6)	(11.1)
Transfers	-	3.8	-	-	-	3.8
Balance at the end of the financial year	**177.6**	**56.2**	**5.6**	**347.4**	**1.3**	**588.1**
Year ending 30 June 2021						
Balance at the beginning of the financial year	140.4	53.5	5.6	346.5	2.1	548.1
Acquisitions through business combinations	37.2	4.4	-	0.9	0.2	42.7
Additions	-	10.1	-	-	-	10.1
Disposals	-	(0.4)	-	-	-	(0.4)
Amortisation	-	(10.6)	-	-	(0.4)	(11.0)
Balance at the end of the financial year	**177.6**	**57.0**	**5.6**	**347.4**	**1.9**	**589.5**

Brands and other identifiable intangible assets

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

These identifiable intangible assets are subsequently measured:

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

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

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

Water rights

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

Software

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

13. Intangible assets (cont.)

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

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

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

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.

Bulk impairment assessment

The Group has identified the assets of the Tatura, Lagoon St (Bega), and Koroit manufacturing sites to be a CGU. This CGU includes goodwill of $117.0 million. The cash inflows of the Bulk CGU are driven by available milk volumes, which are utilised across all manufacturing sites in the CGU and can be diverted to the site that can produce the highest return on that milk.

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

In calculating the recoverable amount of the Bulk CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2023 to FY2027. A number of assumptions were made in respect of matters which are not certain, including the following key assumptions:

- the gross margin of the CGU is sensitive to future assumptions on farmgate milk prices and global dairy commodity prices. The FY2023 budget assumes farmgate milk prices are in line with Bega's announced prices and budgeted sales are based on contracted prices and forecast global dairy commodity prices for uncontracted sales. Beyond FY2023, the forecast assumes the correlation between farmgate milk prices and global dairy commodity prices to trend towards their five year historical averages
- the FY2023 budget assumes milk volumes allocated to the Bulk CGU of 668mL and from FY2023 to FY2027 they are assumed to decrease by a CAGR of 0.4%
- with advice from independent experts, applied post tax discount rate of 7.6%
- a long-term nominal growth rate of 2.0% beyond the forecast period

Using the above assumptions, the recoverable amount was $116 million above the carrying value of the Bulk CGU as at 30 June 2022 and as a result no impairment was required. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant which does not reflect the interrelationship of these assumptions over the longer term.

Sensitivity analysis

Management has considered the following changes in key assumptions in isolation to be reasonably possible which could result in an impairment.

Variance from base case	Current assumption (FY2023 to FY2027)	Assumption to arrive at nil headroom
Gross margin growth (CAGR)	0.5%	(1.7)%
Milk intake decrease (CAGR)	(0.4)%	(3.2)%

13. Intangible assets (cont.)

Bega Dairy and Drinks impairment assessment

The Group has identified the Lion Dairy and Drinks business, acquired in January 2021 and renamed Bega Dairy and Drinks, to be a CGU. This CGU includes capitalised brands of $37.2m. The Bega Dairy and Drinks' core business is the manufacture, marketing and sales, and distribution of Milk Based Beverages, Yogurt, Chilled Juices, Cream and Custard and White Milk.

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 Dairy and Drinks CGU has been determined using the 'value in use' approach.

In calculating the recoverable amount of the Bega Dairy and Drinks CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2023 to FY2027. 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 2.0% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 7.5%
- the CGU incurred a significant amount of direct costs due to COVID-19 related disruptions in FY2022 and it is expected that the majority of these costs are mostly confined to FY2022. Sales price increases are forecast in FY2023 and are expected to largely offset the recent increase in costs of production inputs and the supply chain. The cash flow model assumes a gross margin increase by a CAGR of 5.1% between FY2023 - FY2027, which includes the impact of assumed volume and sales price increases and the impact of Bega's recently announced farmgate milk prices and other key production inputs.

Using the above assumptions, the recoverable amount was $186 million above the carrying value of the Bega Dairy and Drinks CGU as at 30 June 2022 and as a result no impairment was required. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant which does not reflect the interrelationship of these assumptions over the longer term.

Sensitivity analysis

Management has considered the following changes in key assumptions in isolation to be reasonably possible which could result in an impairment.

Variance from base case	Current assumption (FY2023 to FY2027)	Assumption to arrive at nil headroom
Gross margin growth (CAGR)	5.1%	4.3%

Bega Foods impairment assessment

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

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

In calculating the recoverable amount of the Bega Foods CGU a discounted cash flow model was utilised forecasting cash flows for the period FY2023 to FY2027. 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 2.5% beyond the forecast period
- with advice from independent experts, applied post tax discount rate of 7.6%
- the FY2023 budget assumes consumer buying behaviour in retail grocery returns towards pre-COVID-19 levels. 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 2022 and as a result no impairment was required. Based on 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 2022.

14. Trade and other payables

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Current liabilities		
Trade payables	267.0	315.5
Accrued charges and sundry creditors	182.2	161.9
Total trade and other payables	**449.2**	**477.4**

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.

15. Other liabilities

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Current liabilities		
Deferred income	2.5	26.7
Trade Receivables Facility continuing involvement liability	14.0	16.1
Total current other liabilities	16.5	42.8
Non-current liabilities		
Deferred income	-	0.5
Total non-current other liabilities	-	0.5
Total other liabilities	**16.5**	**43.3**

16. Borrowings

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Non-current – at amortised cost		
Secured term loans	310.0	393.0
Borrowing costs	(1.5)	(1.1)
Total non-current borrowings	308.5	391.9
Total borrowings	**308.5**	**391.9**

For further details on borrowings and facilities, see note 22d.

17. Provisions

	CONSOLIDATED 2022 $m	2021 $m
Current liabilities		
Employee benefits	94.6	91.6
Onerous contracts	4.5	11.6
Restructuring provision	1.6	6.3
Restoration provision	1.0	0.6
Other provisions	5.6	9.7
Total current provisions	107.3	119.8
Non-current liabilities		
Employee benefits	5.3	8.9
Onerous contracts	1.4	5.2
Restoration provision	10.2	10.5
Total non-current provisions	16.9	24.6
Total provisions	**124.2**	**144.4**

Consolidated	**Onerous contracts** $m	**Restructure provision** $m	**Restoration provision** $m	**Other provisions** $m	**Total** $m
Year ending 30 June 2022					
Balance at the beginning of the financial year	16.8	6.3	11.1	9.7	43.9
Charged/(credited) to profit or loss	-	-	0.1	(0.3)	(0.2)
Amounts used during the year	(10.9)	(4.7)	-	(3.8)	(19.4)
Balance at the end of the financial year	**5.9**	**1.6**	**11.2**	**5.6**	**24.3**
Year ending 30 June 2021					
Balance at the beginning of the financial year	-	-	-	-	-
Acquisitions through business combinations	21.5	3.9	11.0	8.3	44.7
Charged/(credited) to profit or loss	-	14.1	0.1	2.7	16.9
Amounts used during the year	(4.7)	(11.7)	-	(1.3)	(17.7)
Balance at the end of the financial year	**16.8**	**6.3**	**11.1**	**9.7**	**43.9**

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 $94.6 million (2021: $91.6 million) is due to the Group not having an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

18. Share capital

a. Share capital

	CONSOLIDATED	
	2022 $m	2021 $m
Share capital – ordinary shares fully paid	**878.2**	**875.7**

b. Movement in share capital value and number of shares

	Ordinary Shares Number '000	Ordinary Shares $m
Ordinary shares on issue at 1 July 2020	214,437	480.5
Shares issued under Placement and Institutional Entitlement Offer	62,156	285.9
Shares issued under Retail Entitlement Offer	25,024	115.1
Shares issued under Dividend Reinvestment Plan	437	2.5
Shares issued to management under STI scheme	573	-
Share issue transaction costs, net of tax	-	(8.3)
Ordinary shares on issue at 30 June 2021	302,627	875.7
Ordinary shares on issue at 1 July 2021	302,627	875.7
Shares issued under Dividend Reinvestment Plan	598	3.1
Tax effect of prior period share issue transaction costs	-	(0.6)
Shares issued to management under STI scheme	58	-
Ordinary shares on issue at 30 June 2022	303,283	878.2

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

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

19. Reserves

	CONSOLIDATED	
	2022 $m	2021 $m
Share-based payment reserve	4.9	6.8
Capital profits reserve	34.0	34.0
Hedging reserve	0.4	(2.3)
Foreign currency translation reserve	0.2	-
Transactions with non-controlling interests reserve	(12.6)	(12.6)
Total reserves	**26.9**	**25.9**

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 3.

The foreign currency translation reserve is used to convert the results of the parent company 's foreign subsidiaries to its reporting currency.

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.

20. Notes to the Consolidated Statement of Cash Flows

	CONSOLIDATED	
	2022 $m	**2021** $m
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	44.9	87.2
Balance per statement of cash flow	**44.9**	**87.2**
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	24.2	78.0
Adjustments for non-cash, investing and financing items:		
Depreciation of non-current assets	92.6	61.8
Amortisation of intangible assets	11.1	11.0
(Profit)/loss on sale of property, plant and equipment	(1.7)	0.1
Write-off of intangible assets	-	0.4
Gain from early lease termination	(1.3)	-
Impairment of tangible assets	-	2.2
Fair value adjustment to derivatives	1.9	0.2
Movement in share based-payments reserve	(1.9)	6.4
Income from Reckitt termination fees received/(not yet received)	15.9	(15.9)
Share of profit of equity accounted investments	(1.9)	(1.2)
Gain on bargain purchase	-	(69.5)
Gain on equity interest	-	(2.3)
Changes in operating assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other debtors and GST recoverable	65.0	8.6
Inventories	27.4	(13.8)
Prepayments	1.8	8.1
Current and deferred tax assets	(7.1)	2.6
Increase/(decrease) in liabilities:		
Trade and other payables	(52.2)	19.0
Provision for income taxes payable excluding taxation on investments	5.0	17.8
Changes in provisions	(20.6)	(2.1)
Net cash flow from operating activities	**158.2**	**111.4**

Risk

21. Critical accounting estimates and judgements

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

In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 7 - income tax, note 8 - trade and other receivables, note 11 - inventories, note 13 - intangible assets and note 26 - business combination.

22. Financial risk management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management approach focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not for trading or other speculative purposes. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in case of interest rate, foreign exchange and 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 and commodity price 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 interest rate movements and commodity prices. The Group enters into a variety of derivative financial instruments to manage exposures which include forward foreign currency contracts to hedge exchange rate risks from the sale of exported goods and purchase of imported goods.

Foreign exchange risk

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

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

Commodity price risk

Commodity price risk in the Group primarily arises from price fluctuations and the availability of raw materials and other manufacturing inputs (e.g. crude oil, sugar). The Group may enter into derivative transactions to limit these risks. Hedging activities are evaluated regularly to align with Group expectations about the price changes and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

It is the policy of the Group that it may enter into commodity forward contracts hedges to manage the commodity price risk associated with anticipated purchase transactions out to 12 months. In the current year, the Group has designated certain commodity forward contracts as a cash flow hedge of highly probable purchases.

22. Financial risk management (cont.)

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

Consolidated	Contract amount $m	Contract amount in foreign currency $m	Weighted average forward rate $m	Market value assets $m	Market value liabilities $m
At 30 June 2022					
Cash flow hedges					
US Dollar	52.2	37.0	0.7087	-	(1.5)
Euro	7.2	4.6	0.6421	-	(0.2)
Japanese Yen	2.4	212.2	87.2100	0.2	-
Held for trading					
US Dollar	31.7	22.9	0.7232	1.6	-

Consolidated	Contract amount $m	Unit – Ltr $m	USD per Ltr $m	Market value assets $m	Market value liabilities $m
Commodity hedges					
US Dollar	-	4.6	0.7	0.9	-

Consolidated	Contract amount $m	Contract amount in foreign currency $m	Weighted average forward rate $m	Market value assets $m	Market value liabilities $m
At 30 June 2021					
Cash flow hedges					
US Dollar	75.2	57.9	0.7695	-	(2.0)
Japanese Yen	2.2	179.4	83.3564	-	(0.1)
Options					
US Dollar	82.7	64.8	0.7831	1.1	-

Group sensitivity

The Group sensitivity for cash flow exposures is based on the financial instruments held on 30 June 2022, 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 2021 and has no material impact on profit after tax due to the Group aiming to fully hedge its foreign currency exposures and the accounting treatment of the instruments held. The sensitivity on the Group's hedging instruments is detailed in the following table:

	CONSOLIDATED	
	2022 $m	**2021** $m
Equity		
AUD$ strengthens 10% – increase	2.1	6.4
AUD$ weakens 10% – (decrease)	(4.8)	(7.3)

22. 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 2021 or 2022 but the use of interest rate swaps is regularly monitored and reviewed as to their effectiveness by the Group. All borrowings were denominated in Australian dollars during 2021 and 2022.

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

	CONSOLIDATED	
	2022 $m	2021 $m
Fixed rate instruments		
Assets		
Vat and supplier loans	-	0.1
Liabilities		
Lease liabilities	(114.3)	(104.6)
Variable rate instruments		
Assets		
Cash and cash equivalents	44.9	87.2
Liabilities		
Bank overdrafts and loans	(308.5)	(391.9)
Net exposure to interest rate risk on variable rate instruments	**(263.6)**	**(304.7)**

An analysis by maturities is provided in note 22e.

Interest rate sensitivity

At 30 June 2022, 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 $2.8 million higher/(lower) (2021: $1.7 million higher/(lower)).

B. Credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 8 and note 22f. 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.

22. Financial risk management (cont.)

The maximum exposure to credit risk is as follows:

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Cash and cash equivalents	44.9	87.2
Trade receivables	234.8	294.4
Accrued revenue	5.2	5.8
Other receivables	30.5	37.4
Fair value derivatives	2.7	1.1
Total credit risk exposure	**318.1**	**425.9**

There is considered to be limited credit risk in the balances of other receivables due to their nature as entities with which close commercial relationships are maintained, related parties or government agencies. The Group manages amounts payable by direct milk suppliers to the Group for supplier advances, loans or other prepayments for milk so as to mitigate any material exposure to default.

The ageing analysis of trade receivables is set out in the table below. The credit quality of financial assets that are neither past due nor impaired is assessed based on the application of the credit risk policies described above. The expected impairment loss calculation for trade receivables considers the impact of past events, and exercises judgment over the impact of current and future economic conditions when considering the recoverability of outstanding trade receivable balances at the reporting date. Subsequent changes in economic and market conditions may result in the provision for impairment losses increasing or decreasing in future periods.

Consolidated	**Current** $m	**More than 30 days past due** $m	**More than 60 days past due** $m	**More than 90 days past due** $m	**Total** $m
Year ending 30 June 2022					
Expected loss rate	-	9.8%	14.8%	55.9%	
Gross carrying amount – trade receivables	221.6	5.2	5.0	9.5	241.3
Loss Allowance	-	0.5	0.7	5.3	6.5
Year ending 30 June 2021					
Expected loss rate	0.2%	3.8%	11.1%	63.3%	
Gross carrying amount – trade receivables	275.9	11.2	3.8	12.9	303.8
Loss Allowance	0.4	0.4	0.4	8.2	9.4

	CONSOLIDATED 2022 $m	CONSOLIDATED 2021 $m
Opening loss allowance	9.4	0.6
Acquisitions through business combinations	-	8.8
(Decrease)/increase in loss allowance recognised in profit or loss during the year	(2.3)	0.1
Receivables written off during the year as uncollectible	(0.6)	(0.1)
Closing loss allowance	**6.5**	**9.4**

22. Financial risk management (cont.)

C. Liquidity risk

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

D. Financing arrangements

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

	CONSOLIDATED	
	2022 $m	**2021** $m
Undrawn facilities expiring within one year	100.0	100.0
Undrawn facilities expiring beyond one year	140.0	87.0
Drawn facilities	310.0	393.0
Total facilities	**550.0**	**580.0**
Total facilities are represented by:		
Syndicated Facility – Revolving Cash Advance Facility maturing 17 February 2025	270.0	-
Syndicated Facility – Revolving Cash Advance Facility maturing 17 February 2027	180.0	-
Syndicated Facility – Revolving Cash Advance Facility maturing 10 November 2023	-	140.0
Syndicated Facility – Revolving Cash Advance Facility maturing 10 November 2023	-	140.0
Syndicated Facility – Revolving Cash Advance Facility maturing 30 September 2022	-	100.0
Syndicated Facility – Term Facility maturing 30 September 2022	-	100.0
Inventory Facility	100.0	100.0
Total facilities	**550.0**	**580.0**

In December 2021, the Group cancelled its $480m Syndicated Debt Facility consisting of three revolving cash advance facilities totalling $380 million (with maturity dates between 30 September 2022 and 10 November 2023) and a term facility totalling $100 million (with a maturity date of 30 September 2022).

This was replaced with a new Syndicated Debt Facility consisting of two facilities: Facility 1 which has a limit of $270 million maturing in February 2025 and Facility 2 which has a limit of $180 million maturing in February 2027.

In addition to the Syndicated Debt Facility, the Group continues to operate a stand-alone Inventory Facility (matures on 30 March 2023) which is not subject to cross-charges or cross-guarantees, except as disclosed in note 24.

The Syndicated Debt Facility and Inventory Facility are secured by equitable mortgages and floating charges on the assets of Bega Cheese Limited and its subsidiaries subject to the Deed of Cross Guarantee as disclosed in note 25.

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

i. the leverage ratio is not greater than 3.50 times;

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

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

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

22. Financial risk management (cont.)

E. Maturities of financial liabilities

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

Consolidated	0-12 months $m	1-2 years $m	2-5 years $m	>5 years $m	Total contractual cash flows $m	Carrying amount $m
At 30 June 2022						
Non-derivatives						
Lease liabilities	(24.9)	(23.5)	(50.8)	(31.0)	(130.2)	(114.3)
Secured bank loans	(13.3)	(14.8)	(323.6)	-	(351.7)	(308.5)
Trade and other payables	(449.2)	-	-	-	(449.2)	(449.2)
Derivatives						
Inflows	95.0	-	-	-	95.0	-
Outflows	(94.9)	-	-	-	(94.9)	(1.7)
Total financial liabilities	**(487.3)**	**(38.3)**	**(374.4)**	**(31.0)**	**(931.0)**	**(873.7)**
At 30 June 2021						
Non-derivatives						
Lease liabilities	(26.2)	(22.6)	(44.0)	(37.9)	(130.7)	(104.6)
Secured bank loans	(7.3)	(145.4)	(254.8)	-	(407.5)	(391.9)
Trade and other payables	(477.4)	-	-	-	(477.4)	(477.4)
Derivatives						
Inflows	75.4	-	-	-	75.4	-
Outflows	(77.4)	-	-	-	(77.4)	(2.1)
Total financial liabilities	**(512.9)**	**(168.0)**	**(298.8)**	**(37.9)**	**(1,017.6)**	**(976.0)**

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).

22. Financial risk management (cont.)

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

Consolidated	Level 2 $m	Total $m
At 30 June 2022		
Assets		
Foreign currency forwards – fair value hedges	0.2	0.2
Foreign currency forwards – held for trading	1.6	1.6
Commodity hedges	0.9	0.9
Total assets	**2.7**	**2.7**
Liabilities		
Foreign currency forwards – cash flow hedges	(1.7)	(1.7)
Total liabilities	**(1.7)**	**(1.7)**
At 30 June 2021		
Assets		
Foreign currency options	1.1	1.1
Total assets	**1.1**	**1.1**
Liabilities		
Foreign currency forwards – cash flow hedges	(2.1)	(2.1)
Total liabilities	**(2.1)**	**(2.1)**

23. 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	
	2022 $m	**2021** $m
Borrowings	308.5	391.9
Add back: borrowing costs	1.5	1.1
Unrecognised bank guarantees [(1)]	-	19.1
Cash and cash equivalents	(44.9)	(87.2)
Net debt	**265.1**	**324.9**
Total equity	1,262.4	1,266.5
Net debt to equity ratio	**21%**	**26%**

[(1)] For FY2022, bank guarantees are excluded from the definition of net debt under the terms of the revised Syndicated Debt Facility.

Group structure

24. Parent entity financial information

a. Summary financial information

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

	BEGA CHEESE	
	2022 $m	**2021** $m
Current assets	444.8	481.1
Total assets	1,927.6	1,978.7
Current liabilities	(551.9)	(583.7)
Total liabilities	(909.5)	(1,025.7)
Net assets	**1,018.1**	**953.0**
Shareholder's equity		
Issued capital of parent entity	881.6	879.0
Reserves		
Share-based payment reserve	2.2	1.7
Capital profits reserve	32.6	32.6
Hedging reserve	0.6	(1.3)
Retained earnings	101.1	41.0
Total equity	**1,018.1**	**953.0**
Profit/(loss) after tax for the year	91.9	(20.2)
Total comprehensive income/(loss)	91.9	(20.9)

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 2022 or 30 June 2021 except as disclosed in note 28.

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

As at 30 June 2022, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $3.9 million (2021: $5.6 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

25. Subsidiaries, joint arrangements and associates

Consolidated	Country of incorporation	Nature of relationship	2022 % of ownership interest	2021 % of ownership interest
180 Nutrition Pty Ltd	Australia	Subsidiary	100	100
BDD Australia Pty Ltd*	Australia	Subsidiary	100	100
BDD Foods Pty Ltd*	Australia	Subsidiary	100	100
BDD Milk Pty Ltd*	Australia	Subsidiary	100	100
Bega Cheese Benefit Fund Ltd	Australia	Subsidiary	100	100
Bega Cheese Investments Pty Ltd	Australia	Subsidiary	100	100
Bega Dairy and Drinks Pty Ltd*	Australia	Subsidiary	100	100
Bega Dairy and Drinks Finance Pty Ltd*	Australia	Subsidiary	100	100
Bega Dairy and Drinks (NZ) Ltd	New Zealand	Subsidiary	100	100
Bega Dairy and Drinks Services Pty Ltd*	Australia	Subsidiary	100	100
Bega Insurance Pte Ltd	Singapore	Subsidiary	100	100
Berri Pty Ltd*	Australia	Subsidiary	100	100
Berri Asia Sdn Bhd	Malaysia	Subsidiary	100	100
Blowflex Mouldings Pty Ltd*	Australia	Subsidiary	100	100
Capitol Chilled Foods (Australia) Pty Ltd*	Australia	Subsidiary	100	100
Dairy and Drinks Singapore Pte Ltd	Singapore	Subsidiary	100	100
Dairy Farmers Pty Ltd*	Australia	Subsidiary	100	100
Dairy Vale Foods Pty Ltd*	Australia	Subsidiary	100	100
Malanda Dairyfoods Pty Ltd*	Australia	Subsidiary	100	100
National Foods Holdings Ltd*	Australia	Subsidiary	100	100
National Foods Beverage Holdings Pty Ltd*	Australia	Subsidiary	100	100
Peanut Company of Australia Pty Ltd*	Australia	Subsidiary	100	100
QUD Pty Ltd*	Australia	Subsidiary	100	100
Shanghai Great Lion Food & Beverages Management Co Ltd	China	Subsidiary	100	100
Tatura Milk Industries Pty Ltd*	Australia	Subsidiary	100	100
Tatura Cheese Industries Pty Ltd	Australia	Subsidiary	100	100
Vitasoy Australia Products Pty Ltd	Australia	Associate	49	49
CBH Fresh Ltd	Australia	Joint venture	13.7	20

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

Interest in associate

The principal activity of the associate is the manufacture, marketing and sales and distribution of plant-based beverages. The Group financial statements include the following results of the associate:

	VITASOY	
	2022 $m	2021 $m
Share of profit of equity accounted investments	1.9	0.8
Investments accounted for using the equity method	47.6	46.6

Accounting policies applied for associates are described in note 34b.

26. Business combination

In the prior year, the Group acquired 100% of the shares in Lion Dairy and Drinks legal entities, renamed Bega Dairy and Drinks. Details of this business combination were disclosed in the Group's 2021 Annual Report.

At 30 June 2021, the fair value of some assets and liabilities had been recognised on a provisional basis. In the current reporting period, the fair value of assets acquired and liabilities assumed have been finalised. The amounts which have been altered and the effect on the consolidated balance sheet have been summarised below:

	Provisional fair value $m	Final adjustments $m	Final fair value $m
Cash and cash equivalents	13.7	-	13.7
Trade and other receivables	229.5	(0.2)	229.3
Inventories	73.8	-	73.8
Intangible assets	41.8	-	41.8
Property, plant and equipment	487.0	3.1	490.1
Right-of-use assets	101.3	-	101.3
Investments accounted for using the equity method	45.8	-	45.8
Deferred tax assets	19.5	-	19.5
Trade and other payables	(208.2)	-	(208.2)
Lease liabilities	(99.2)	-	(99.2)
Provisions	(89.5)	(1.1)	(90.6)
Deferred tax liabilities	(15.5)	-	(15.5)
Fair value of identifiable net assets acquired	600.0	1.8	601.8
Total purchase consideration	(532.3)	-	(532.3)
Gain on bargain purchase	67.7	1.8	69.5

The adjustments relating to the change in the provisional gain on bargain purchase are also reflected by increasing the opening balance of retained earnings as at 1 July 2021.

Total acquisition-related costs incurred during the year ended 30 June 2022 are $46.5 million before tax (2021: $63.8 million before tax). These acquisition costs are not included in the purchase consideration disclosed above. These costs are included in the Group's consolidated statement of comprehensive income for the year ended 30 June 2022 and are disclosed as a significant item (see note 2).

26. Business combination (cont.)

The amounts which have been altered and the effect on the consolidated statement of comprehensive income have been summarised below:

Consolidated statement of comprehensive income and segment information (extracts)	30 June 2021 (Previously stated) $m	Adjustment $m	30 June 2021 (Restated) $m
Revenue	2,073.4	-	2,073.4
Cost of sales	(1,608.2)	-	(1,608.2)
Gross profit	465.2	-	465.2
EBITDA	182.7	1.8	184.5
EBIT	107.7	1.8	109.5
Profit before income tax	97.4	1.8	99.2
Income tax expense	(25.2)	4.0	(21.2)
Profit for the period attributable to owners of Bega Cheese Limited	**72.2**	5.8	**78.0**

Earnings per share	30 June 2021 (Previously stated) Cents	Adjustment Cents	30 June 2021 (Restated) Cents
Basic earnings per share	27.3	2.2	29.5
Diluted earnings per share	27.2	2.2	29.4

27. Closed group disclosure

Entities that are party to a Deed of Cross Guarantee under which each company guarantees the debts of the other are included in note 25. These companies represent a "closed group" for the purposes of the Instrument 2016/785, issued by the Australian Securities and Investments Commission. By entering into the deed these entities have been relieved from the requirement to prepare a financial report and Directors' report under the Instrument.

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

	CLOSED GROUP	
	2022 $m	2021 $m
Profit before income tax	**33.5**	**32.8**
Income tax expense	(9.6)	(5.7)
Profit for the year	**23.9**	**27.1**

27. Closed group disclosure (cont.)

	CLOSED GROUP	
	2022 $m	2021 $m
ASSETS		
Current assets		
Cash and cash equivalents	40.1	82.5
Trade and other receivables	272.8	347.9
Derivative financial instruments	2.8	1.1
Inventories	317.5	344.9
Current tax assets	3.0	13.3
Assets held for sale	60.5	-
Other assets	26.7	37.9
Total current assets	**723.4**	**827.6**
Non-current assets		
Property, plant and equipment	844.0	911.6
Right-of-use assets	109.9	103.4
Deferred tax assets	38.9	22.7
Other assets	-	0.1
Intangible assets	588.1	589.5
Investments accounted for using the equity method	47.6	46.6
Total non-current assets	**1,628.5**	**1,673.9**
Total assets	**2,351.9**	**2,501.5**
LIABILITIES		
Current liabilities		
Trade and other payables	448.0	477.1
Other liabilities	16.5	42.8
Derivative financial instruments	1.7	2.1
Lease liabilities	21.0	25.5
Current tax liabilities	10.3	18.4
Provisions	107.1	119.7
Total current liabilities	**604.6**	**685.6**
Non-current liabilities		
Borrowings	308.5	391.9
Lease liabilities	93.3	79.1
Other liabilities	-	0.5
Provisions	16.9	24.5
Deferred tax liabilities	71.7	58.5
Total non-current liabilities	**490.4**	**554.5**
Total liabilities	**1,095.0**	**1,240.1**
Net assets	**1,256.9**	**1,261.4**
EQUITY		
Share capital	870.1	867.7
Reserves	25.9	24.9
Retained earnings	360.9	368.8
Total equity	**1,256.9**	**1,261.4**

Unrecognised items

28. Contingent liabilities

The Group enters into product supply agreements with ongoing requirements to reconcile to specific contractual terms (see note 14). Contingent liabilities may arise where completion of the reconciliation process subsequent to a reporting date results in a payable greater than the amount accrued. Based on all available information and professional advice, management considers there are no significant contingent liabilities at 30 June 2022. The group has $15.5 million of bank guarantees as at 30 June 2022 (2021: $19.1 million).

29. Commitments

	CONSOLIDATED	
	2022 $m	**2021** $m
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Plant and equipment – payable within one year	24.4	9.1

30. Subsequent events

The financial impact of the transactions set out below which occurred after 30 June 2022 has not been recognised in these financial statements.

A. Dividend

On 26 August 2022, the Directors declared a final fully franked dividend of 5.5 cents per share, which represents a distribution of $16.7 million.

The Group's Dividend Reinvestment Plan (DRP) will be activated for the FY2022 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 FY2022 final fully franked dividend to be paid on 23 September 2022 must be recorded by the registry by 5:00 pm on 1 September 2022 to be effective for that dividend.

Further details

31. 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.

After completion of the Bega Dairy and Drinks acquisition in 2021, the Group owns 100% of the shares of Capitol Chilled Foods (Australia) Pty Ltd (CCFA). All transactions between Bega Cheese and CCFA during the year are fully eliminated on consolidation.

	CONSOLIDATED	
	2022 $m	**2021** $m
Sales made to CCFA	-	4.0
Rent paid by CCFA to Bega Cheese	-	0.1

31. Related party transactions (cont.)

The Group had the following transactions with Vitasoy Australia Products Pty Ltd (Vitasoy) during the year:

	CONSOLIDATED	
	2022 $m	2021 $m
Sales made to Vitasoy by BDD	11.7	5.0
Management fees paid by Vitasoy to BDD	5.7	2.3
Other charges paid by Vitasoy to BDD	9.8	3.5
Dividend declared by Vitasoy to BDD	1.0	1.0

Further details of the joint venture and associate are included in note 25.

C. Key management personnel remuneration and transactions

	CONSOLIDATED	
	2022 $	2021 $
Short-term employee benefits	3,520,733	3,640,776
Post-employment benefits	153,454	153,479
Other long-term employee benefits	132,399	410,723
Share-based payments	44,940	241,322
Total employee benefits	**3,851,526**	**4,446,300**

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

	CONSOLIDATED	
	2022 $	2021 $
Payments made by the Group during the year	6,304,708	5,621,827
Sales made by the Group during the year	358,641	406,131
Rental income received by the Group during the year	53,649	11,305
Amounts payable at year end	504,206	255,894
Amounts receivable at year end	43,451	50,708

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

32. Remuneration of auditors

	CONSOLIDATED	
	2022 $	2021 $
Audit services		
PwC Australia - Audit and review of financial statements	1,736,000	1,551,000
Non-audit services		
PwC Australia - Assurance services	75,000	929,000
PwC Australia - Other services	557,000	854,000

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

33. Share-based payments

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

The Long-term Incentive Plans (LTIs) are designed to provide long-term incentives to the CEO and executive team to deliver shareholder returns. Under the 2020-2022 LTI Plan (2022 Plan), 2021-2023 LTI Plan (2023 Plan), and the 2022-2024 LTI Plan (2024 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 2022 was 749,125 (2021: 646,341).

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

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

	CONSOLIDATED	
	2022 $m	2021 $m
Entitlements due under employee share schemes		
Expense in relation to LTIs and STIs	0.2	6.4
Total employee share scheme expense	**0.2**	**6.4**

The following tables detail the total performance rights issued by the Group:

			CONSOLIDATED	
LTI Plan	**Vesting date**	**Valuation price**	**2022 No. of rights**	**2021 No. of rights**
2024 Plan	30 June 2024	$5.38	359,892	-
2023 Plan	30 June 2023	$4.17	389,233	389,233
2022 Plan	30 June 2022	$4.45	-	257,108
Performance rights on issue at end of period			**749,125**	**646,341**

	Long term incentives Performance rights	
	No.	$
For the year ended 30 June 2022		
Outstanding at the beginning of the period	646,341	n/a
Granted during the period	423,403	$5.50
Lapsed during the period	(320,619)	$4.45
Outstanding at end of period	**749,125**	**n/a**
For the year ended 30 June 2021		
Outstanding at the beginning of the period	383,984	n/a
Granted during the period	389,233	$4.17
Lapsed during the period	(126,876)	$6.98
Outstanding at end of period	**646,341**	**n/a**

34. 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 26 August 2022. 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 2021.

Adoption of new standards

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

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 21. Certain items in the prior period have been reclassified to be consistent with their presentation in the current period.

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 2022 and the results of all subsidiaries for the year then ended. Bega Cheese and the entities it controlled together are referred to in this financial report as the 'Group' and the 'consolidated entity'.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

Joint ventures and associates

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

Details relating to the joint venture and associates are set out in note 25.

34. Summary of significant accounting policies (cont.)

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 reporting segments, are the Executive Chairman, the Chief Executive Officer and the Chief Financial Officer.

D. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

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.

34. Summary of significant accounting policies (cont.)

Services

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

Royalties and rental revenue

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

Interest income

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

Dividends

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

F. Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the asset and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

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.

34. Summary of significant accounting policies (cont.)

H. Business combinations

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

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

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

I. Impairment of assets

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

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

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

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

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

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

J. Cash and cash equivalents

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

34. Summary of significant accounting policies (cont.)

K. Trade receivables

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

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

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

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within administration expense. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expense in profit or loss.

Derecognition

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

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

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

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

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

L. Inventories

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

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

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

M. Other assets

Other assets

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

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

Prepayments

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

34. Summary of significant accounting policies (cont.)

N. Investments and other financial assets

Loans and receivables

The Group classifies its investments in the following categories: loans and receivables and 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 22 for further details.

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

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

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

Certain shares held by the Group are classified as being financial assets at fair value through other comprehensive income (FVOCI) and are stated at fair value. Fair value is determined in the manner described in note 22. Gains and losses arising from changes in fair value are recognised through other comprehensive income with the exception of impairment losses that are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

O. Derivatives and hedging activities

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

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 22. 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.

34. Summary of significant accounting policies (cont.)

Cash flow hedge

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

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

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

Fair value hedge

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

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

P. Property, plant and equipment

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

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

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

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

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

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

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

34. Summary of significant accounting policies (cont.)

Q. Leases

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

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

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

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

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

R. Intangible assets

Goodwill

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

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

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 34i.

34. Summary of significant accounting policies (cont.)

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

S. Trade and other payables

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

T. Borrowings

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

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

Borrowing costs are expensed as incurred unless they relate to significant qualifying assets.

U. Provisions

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

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

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

Onerous contracts

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

34. Summary of significant accounting policies (cont.)

Restoration provisions

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

Restructurings

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

V. Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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

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

Retirement benefit obligations

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

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.

34. Summary of significant accounting policies (cont.)

W. Contributed equity

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

X. Dividends

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

Y. Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

Z. Research and development costs

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

AA. Goods and Services Tax (GST)

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

AB. Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, or in certain cases, the nearest dollar.

AC. Parent entity financial information

The financial information for the parent entity, Bega Cheese, disclosed in note 24 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.

In the Directors’ opinion

a. the financial statements and notes set out on pages 36 to 108 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 2022 and of its performance for the financial year ended on that date; and

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

c. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 27.

Note 34a 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

26 August 2022

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 2022 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 2022
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

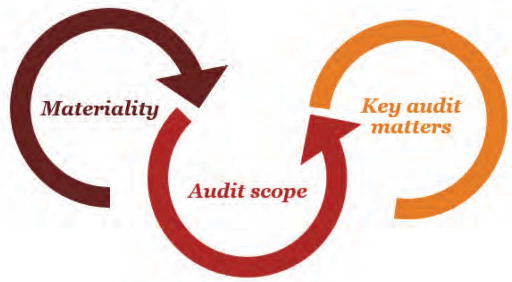
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the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

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999

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 $7.5 million, which represents approximately 0.25% of the Group's revenue.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group revenue because it is reflective of the Group's operating activities during the year and provides a level of materiality which, in our view, is appropriate for the audit having regard to the expected users of the Group financial report.
- We utilised a 0.25% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
The carrying value of goodwill and other indefinite lived intangible assets - Bulk and Bega Dairy and Drinks Cash Generating Units *(Refer to note 13)* As described in note 13 of the consolidated financial statements, the Group has recognised goodwill and other indefinite lived intangible assets in relation to the Bulk and Bega Dairy and Drinks cash generating units (CGUs) of \$117.0 million and \$37.2 million respectively, as at 30 June 2022. The Group tests the goodwill and other indefinite lived intangible assets for impairment on an annual basis. The carrying value of goodwill and other indefinite lived intangibles relating to the Bulk and Bega Dairy and Drinks CGUs was determined to be a key audit matter due to: • the magnitude of the goodwill and other indefinite lived intangible asset balances • the judgement required by the Group in assessing whether an impairment was required.	Our procedures included the following, amongst others: • Obtaining the Group's value in use models for the Bulk & Bega Dairy and Drinks CGUs and evaluating the appropriateness of the valuation methodology used to estimate the recoverable amount of the CGUs. • Evaluating the Group's cash flow forecasts included in the value in use models and the process by which they were developed, with reference to the historical performance of the businesses. • Assessing key assumptions within the models for reasonableness with reference to external market data where possible. • Considering the disclosures in note 13 in light of Australian Accounting Standards. Professionals with specialised skill and knowledge were used to assist in the evaluation of the Group's discount rate assumption.
Business combination - Lion Dairy and Drinks *(Refer to note 26)* As described in note 26 of the consolidated financial statements, the Group acquired Lion Dairy & Drinks (renamed 'Bega Dairy and Drinks') during the prior financial year for a total purchase consideration of \$532.3 million and recorded a gain on bargain purchase of \$69.5 million. In the current reporting	Our procedures included the following, amongst others: • Evaluating the Group's business combination accounting against the requirements of Australian Accounting Standards, through reviewing key transaction agreements, using our understanding of the business acquired and

Key audit matter	How our audit addressed the key audit matter
period, the business combination accounting for Bega Dairy and Drinks was finalised. The business combination for Bega Dairy and Drinks was determined to be a key audit matter due to: • the magnitude of the acquisition • the judgement required by the Group in determining the fair value of the assets and liabilities recognised on the opening balance sheet.	its industry and inspecting minutes of directors' meetings. • Assessing the fair values of the acquired assets and liabilities recognised, including: ○ considering key assumptions used in the asset valuations in light of historical performance and market data. ○ considering the valuation methodology used in the asset valuation models in light of the requirements of Australian Accounting Standards. ○ considering the appropriateness and completeness of liabilities recognised. ○ considering the appropriateness of the resulting gain on bargain purchase. • Considering the adequacy of the disclosures in note 26 in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, 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 40 to 53 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Bega Cheese Limited for the year ended 30 June 2022 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

Sam Lobley
Partner

Melbourne
26 August 2022

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2022:

Distribution of Equity Securities

HOLDING	NUMBER
1 – 1,000	9,222
1,001 – 5,000	7,026
5,001 – 10,000	2,064
10,001 – 100,000	1,454
100,001 and over	172
	19,938

There were 1,859 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	Forrest Family	30,328,343	10.0
2	Perpetual Limited	16,171,263	5.3
3	FIL Investment Management Australia Limited	14,360,815	4.7
4	Dimensional Fund Advisors Limited	11,488,913	3.8
5	Spheria Asset Management Pty Limited	9,872,031	3.3
6	The Vanguard Group, Inc.	9,788,650	3.2
7	Argo Investments Limited	8,374,378	2.8
8	State Street Global Advisors Australia Limited	8,131,085	2.7
9	Ethical Partners Funds Management Pty Limited	7,969,184	2.6
10	BlackRock Investments, LLC	6,176,036	2.0
11	Macquarie Asset Management Holding Pty Limited	5,229,340	1.7
12	Ellerston capital Limited	4,862,909	1.6
13	Vanguard Investments Australia Limited	4,507,339	1.5
14	Messrs Roy A & Anthony P Medich	4,102,495	1.4
15	Investors Mutual Limited	4,021,910	1.3
16	Norges Bank Investment Management	3,469,736	1.2
17	BlackRock Investments, LLC	2,741,957	0.9
18	Mr Richard C Parbery	2,670,000	0.9
19	Wilson Asset Management (International) Pty Limited	2,454,691	0.8
20	Mr and Mrs Ken Kimber	2,142,923	0.7
	Total	**158,863,998**	**52.4**

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

Voting rights

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

Advisors

Auditor

PricewaterhouseCoopers
One International Towers Sydney Watermans Quay
Barangaroo NSW 2000

Solicitors

Addisons
Level 12, 60 Carrington Street
Sydney NSW 2000

Bankers

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

Westpac Banking Corporation 360 Collins Street
Melbourne VIC 3000

Stock Exchange Listing

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

Directors & Company Secretaries

Directors

Barry Irvin
Executive Chairman

Rick Cross
Director

Harper Kilpatrick
Director

Patria Mann
Independent Director

Peter Margin
Independent Director

Raelene Murphy
Independent Director

Terry O'Brien
Independent Director

Company Secretary

Brett Kelly

Executive Team

Paul van Heerwaarden
Chief Executive Officer

Peter Findlay
Chief Executive Officer and Chief Operating Officer

Colin Griffin
Executive General Manager Contract Manufacturing

David McKinnon
Executive General Manager Human Resources

Adam McNamara
Executive General Manager Bega Foods

Stephen Rae
Executive General Manager Strategy & Planning

Hamish Reid
Executive General Manager Nutritionals & Ingredients

Antonietta Timms
Executive General Manager Beverage Operations

Darryn Wallace
Executive General Manager Bega Beverages Sales & Marketing

Rob Grima
Executive General Manager Operational Excellence

Jacqueline Scarlett
Group General Counsel

Entity Information

Bega Cheese Limited

Trading as "Bega Cheese" ABN 81 008 358 503

The Annual Report includes the results of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the subsidiaries, joint venture and associate. Bega Cheese and its subsidiaries together are referred to in this financial report as the Bega Cheese Group (Group or consolidated entity).

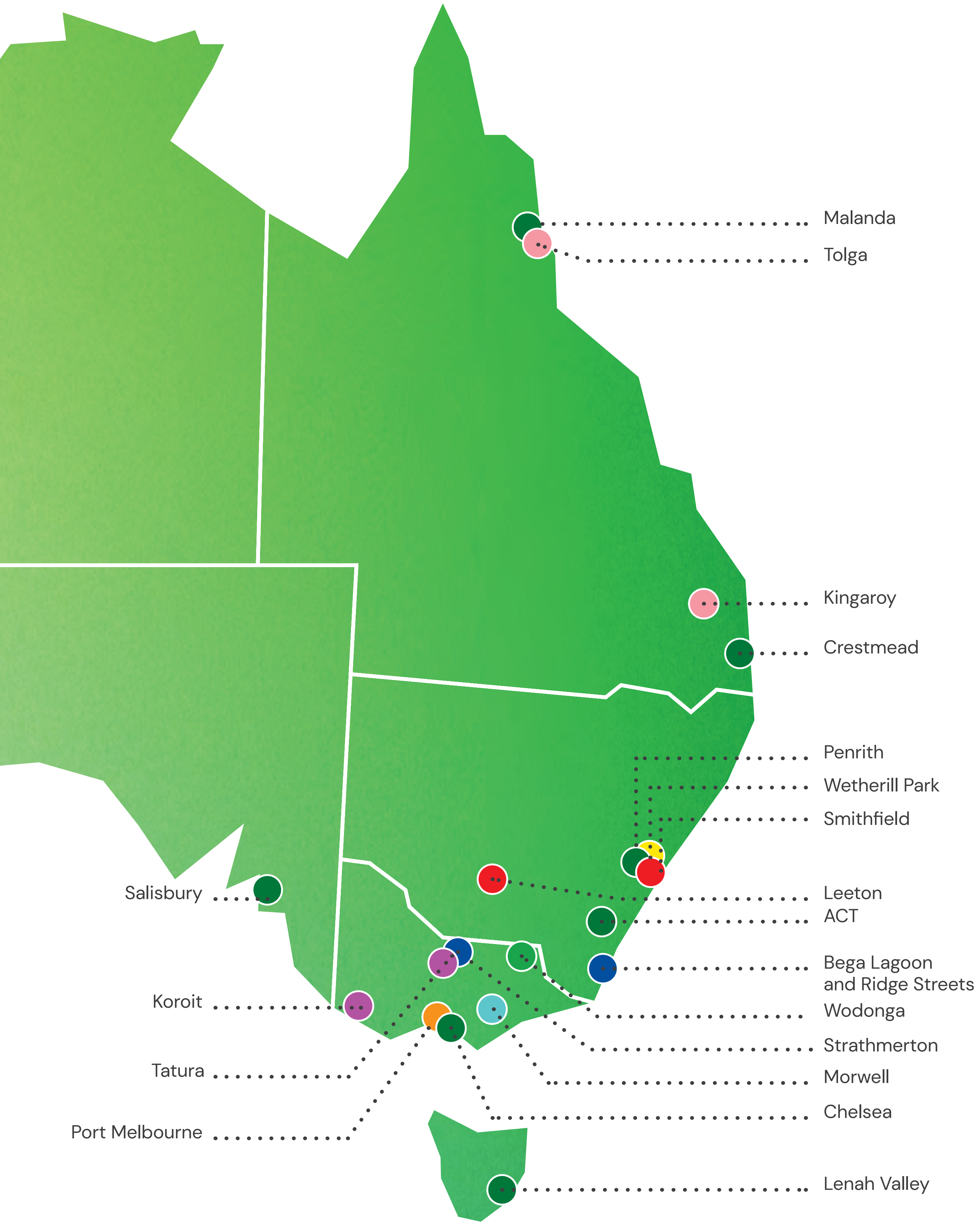
Principal Registered Office

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

Manufacturing Footprint

Manufacturing Facilities

- 8 White Milk and Milk Based Beverages
- 1 Milk Based Beverages Hub
- 3 Cheese
- 2 Dairy Powder and Fats
- 2 Peanuts
- 2 Juice
- 1 Yoghurt
- 1 Spreads
- 1 Plant-based – Joint Venture


Malanda
Tolga
Kingaroy
Crestmead
Penrith
Wetherill Park
Smithfield
Salisbury
Leeton
ACT
Bega Lagoon
and Ridge Streets
Koroit
Wodonga
Strathmerton
Tatura
Morwell
Chelsea
Port Melbourne
Lenah Valley

creating great food
for a better future