



Bega Cheese Limited

ASX Half-Year Information - 28 December 2014

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with
the 30 June 2014 Annual Report

Contents

Results for Announcement to the Market	1
Interim Report	3

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4D Item	Percentage		Amount \$'000	
Revenue from ordinary activities	Up	8%	To	552,500
Profit from ordinary activities after tax	Down	(68)%	To	6,054
Profit from ordinary activities after tax attributable to members	Down	(68)%	To	6,054
Net Profit for the period attributable to members	Down	(68)%	To	6,054

Net Tangible Assets Backing	28 December 2014	29 December 2013
Net tangible assets backing per share	\$1.94	\$2.04

Dividends / Distributions	Amount per Security cents	Franked Amount per Security cents
Interim Dividend (<i>Prior Year</i>)	4.0	4.0
Final Dividend (<i>Prior Year</i>)	4.5	4.5
Interim Dividend Declared 18 February 2015 (<i>Current Year</i>)	4.0	4.0

Record Date for Determining Entitlements	Date
Interim Dividend	2 March 2015

Explanation of revenue

The increase in revenue is a reflection of:

- An increase in nutritional sales, with the infant nutritional canning plant at Derrimut contributing higher margin sales for the whole six months
- A change in product mix in consumer packaged dairy goods with more natural cheese products being produced. This was coupled with milk being used to manufacture cheese as opportunities to obtain returns outside commodity markets were sought
- A strong decline in prices for commodity milk powder and other dairy products due to the downturn in world commodity prices, which have fallen by approximately 50% since the prior year high.

Explanation of profit from ordinary activities after tax

The decrease in profit from ordinary activities after tax is due to:

- Amounts expensed under the Milk Sustainability and Growth Program during 1H FY2015 totalled \$10.6 million (1H FY2014: \$Nil). This Program was launched in March 2014 as a material one-off initiative to secure a sustainable milk supply. Removing the impact of this from the current half-year figures, the profit after tax is \$13.5 million, which is approximately 33% less than the prior period
- Dairy commodity prices have decreased significantly in 1H FY2015 compared to the prior period, adversely impacting the selling price and inventory value of the Group's dairy commodity products. The decrease in commodity values was not fully offset by either the milk price paid to farmers or the positive trends in other value-add products within the Group's product mix. Whilst the FY2015 full year milk price paid to farmers is expected to be below prior year, the timing of milk price changes has meant that the average milk price for both half years is the same

RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

- Finance costs during 1H FY2015 totalled \$1.6 million (1H FY2014: \$4.3 million) with \$1.8m of the decrease reflecting lower average net debt throughout the current period and \$0.9 million of the decrease due to corporate activity in the prior period.

Explanation of net tangible assets backing

Net tangible assets backing has decreased slightly over the prior period as net tangible assets have decreased whilst the number of shares on issue has remained stable. The decrease in net assets is largely attributable to trading conditions and dividend payments.

Explanation of dividends

The interim dividend declared for the current period is in line with the prior year interim dividend. The interim dividend will be paid on 16 March 2015.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan is not in operation.

Details of subsidiaries, associates and joint venture entities

Name of subsidiary	Reporting entity's percentage holding	
	Current period	Previous period
Tatura Milk Industries Limited	100%	100%
Name of joint venture	Current period	Previous period
Capitol Chilled Foods (Australia) Pty Limited	25%	25%

Further information

For further information, please refer to the 30 June 2014 Annual Report and the Consolidated 2015 Interim Report attached to this statement.



Bega Cheese Limited

**Consolidated 2015 Interim Report for the
Half-Year Ended 28 December 2014**

ABN 81 008 358 503

Contents

Directors' Report.....	5
Auditor's Independence Declaration.....	11
Consolidated Statement of Comprehensive Income	12
Consolidated Balance Sheet.....	13
Consolidated Statement of Changes In Equity	14
Consolidated Statement of Cash Flows.....	15
Notes to the Financial Statements	16
Directors' Declaration.....	21
Independent Auditor's Review Report.....	22

DIRECTORS' REPORT

Directors' Report

Your Directors present their report on the consolidated entity ("Bega Cheese Group" or "Group") consisting of Bega Cheese Limited ("Bega Cheese" or the "Company") and the entities it controlled at the end of or during the half-year ended 28 December 2014.

DIRECTORS

The following persons held office as Directors during the whole of the half-year and up to the date of this report:

Barry Irvin

Executive Chairman
Supplier Director
Director since September, 1989

Joy Linton

Chair of Audit & Risk Committee
Independent Director
Director since October, 2011

Jeff Odgers

Chair of Milk Sustainability and Growth Committee
Supplier Director
Director since December, 2011

Richard Platts

Supplier Director
Director since November, 2000

Richard Cross

Supplier Director
Director since December, 2011

Peter Margin

Chair of Nomination & Human Resources Committee
Independent Director
Director since June, 2011

Richard Parbery

Supplier Director
Director since September, 1988

Max Roberts

Supplier Director
Director since September, 1983

REPORTING ENTITY AND PERIOD

This half-year report covers the operations of the Bega Cheese Group, including wholly owned subsidiary Tatura Milk Industries Limited ("Tatura Milk").

This half-year report covers the period from 1 July 2014 to 28 December 2014, being the first half of FY2015 ("1H FY2015"). The relevant prior period comparatives for the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and related notes are for the period from 1 July 2013 to 29 December 2013 ("1H FY2014"). The minor difference in the number of trading days in 1H FY2015 compared to the prior period has not had a material impact on the comparative financial performance in the current period. The relevant prior period comparative for the Consolidated Balance Sheet is at 30 June 2014.

REVIEW OF OPERATIONS

The principal activity of the Group during 1H FY2015 was receiving, processing, manufacturing and distributing dairy and associated products.

Performance highlights

The first half of FY2015 saw the Group achieve the following key highlights:

- generated revenue of \$552.5 million, being an increase of 8% on the prior year period against the backdrop of significantly lower commodity prices in 1H FY2015
- paid \$18.6 million to farmer suppliers under the Milk Sustainability and Growth Program. Over 90% of milk supplied by farms is now contracted under this initiative and generating significant on-farm investment in future milk supply
- completed the first full 6 month production period at the infant nutritional canning plan at Derrimut

DIRECTORS' REPORT (CONTINUED)

- reduced finance costs by over half over the prior period after borrowings were paid down in 2014
- after removing the impact of payments made under the Milk Sustainability and Growth Program, generated profit after tax ("PAT") of \$13.5 million. Although this is a decrease of 33% compared with the prior period, this is a creditable result in light of significantly lower dairy commodity prices
- on 18 February 2015 Bega Cheese declared a fully franked interim dividend of 4.0 cents per share, payable on 16 March 2015, being in line with the FY2014 interim dividend.

Revised syndicated debt facility

Bega Cheese Group re-instated \$56 million in additional debt facilities during 1H FY2015 to fund working capital and investment programs. These additional debt facilities were incorporated into the syndicated debt facility with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Australia Branch), and Westpac Banking Corporation. Bega Cheese Group currently has \$154.0 million of debt facilities available, compared with net debt at 28 December 2014 of \$54.9 million.

Capital investment during 1H FY2015

Bega Cheese Group capital expenditure in 1H FY2015 totalled \$6.0 million (1H FY2014: \$16.8 million). Capital expenditure initiatives in 1H FY2015 included:

- expansion of infant formula blending capabilities at Derrimut
- expansion of cream cheese capacity at Tatura, with this due to increase volumes in 2H FY2015
- design, planning and approvals activities relating to a major expansion of the Group's whey powder extraction capabilities
- upgrade of shred facilities at the Ridge Street plant.

Whilst the capital expenditure incurred in 1H FY2015 is down on the prior year, the Group intends to continue to invest in increasing capacity and value-add capabilities where financially and commercially compelling to do so.

EARNINGS PERFORMANCE 1H FY2015

Group consolidated revenue in 1H FY2015 totalled \$552.5 million, compared to \$510.6 million in 1H FY2014, being an increase of \$41.9 million or 8%. The increase in Group consolidated revenue is a reflection of:

- the Group continuing to develop its nutritionals business, increasing value-added infant formula through the Derrimut canning plant (which came on line in March 2014) which enabled higher margin products to be sold and lessened the dependence on third party packers
- a change in product mix in consumer packaged dairy goods with more natural cheese products being produced. This was coupled with more milk being used to manufacture cheese to optimise opportunities to obtain higher returns than from other commodity based products
- falling commodity prices reducing the revenue from commodity based products, mainly skim and whole milk powder. Powder prices have fallen approximately 50% since their peak in 2014, with the majority of this decrease having a direct impact on sales for most of 1H FY2015.

The Group's strategy is to maintain its leading position in value adding cheese and other dairy products while maintaining flexibility to direct milk solids away from conventional dairy commodities in favour of more technically advanced products that are closely aligned to specific customer needs where it is commercially beneficial to do so. This strategy has seen ongoing growth opportunities in infant and growing-up nutritionals, cheese products for the Asian food service sector and lactoferrin products.

The review of performance refers to the continuing operations of the business before the financial impact of the Milk Sustainability and Growth Program and the impact of corporate activity due to the sale of Warrnambool Cheese and Butter Holdings Limited (WCB), which is referred to as the "normalised" result. The table below shows the effect of the current year events on financial performance:

DIRECTORS' REPORT (CONTINUED)

Normalised result for the Group

Consolidated	Per Financial Statements \$'000	Milk Sustainability and Growth		Normalised outcome \$'000
		WCB outcome \$'000	outcome \$'000	
Period Ending 28 December 2014				
Revenue	552,500	-	-	552,500
Cost of sales	(496,182)	-	10,642	(485,540)
Gross profit	56,318	-	10,642	66,960
Other income and expenses	(35,671)	-	-	(35,671)
EBITDA	20,647	-	10,642	31,289
Depreciation, amortisation and impairment	(11,269)	-	-	(11,269)
EBIT	9,378	-	10,642	20,020
Finance costs, net	(1,485)	-	-	(1,485)
Profit before income tax	7,893	-	10,642	18,535
Income tax expense	(1,839)	-	(3,193)	(5,032)
Profit for the period	6,054	-	7,449	13,503
Gross margin - percentage	10%			12%
Basic earnings per share - cents	4.0			8.9
Period Ending 29 December 2013				
Revenue	510,616	-	-	510,616
Cost of sales	(437,874)	-	-	(437,874)
Gross profit	72,742	-	-	72,742
Other income and expenses	(31,915)	958	-	(30,957)
EBITDA	40,827	958	-	41,785
Depreciation, amortisation and impairment	(10,659)	-	-	(10,659)
EBIT	30,168	958	-	31,126
Finance costs, net	(4,186)	902	-	(3,284)
Profit before income tax	25,982	1,860	-	27,842
Income tax expense	(7,252)	(550)	-	(7,802)
Profit for the period	18,730	1,310	-	20,040
Gross margin - percentage	14%			14%
Basic earnings per share - cents	12.3			13.2

The Group generated normalised earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$31.3 million, compared to \$41.8 million in 1H FY2014, being a decrease of 25%.

The Group generated normalised earnings before interest and tax ("EBIT") of \$20.0 million compared to \$31.1 million in 1H FY2014, being a decrease of 36%.

The Group generated normalised profit before tax ("PBT") of \$18.5 million, compared to \$27.8 million in 1H FY2014, being a decrease of 33%.

The Group generated normalised PAT of \$13.5 million, compared to \$20.0 million in 1H FY2014, being a decrease of 33%.

Other comprehensive income in 1H FY2015 comprised an unfavourable movement in cash flow hedges totalling (\$2.7) million as a result of the fall in the value of the AUD, compared to a favourable movement in cash flow hedges in

DIRECTORS' REPORT (CONTINUED)

1H FY2014 of \$2.0 million. In addition, the 1H FY2014 other comprehensive income benefitted from a change in the fair value of the Company's investment in WCB totalling \$38.6 million. This reflected the impact of the corporate takeover activity targeted at WCB which was completed prior to 30 June 2014 and therefore did not impact the 1H FY2015 result.

The Bega Cheese segment performed strongly in the period with normalised PAT up 45% from \$7.2 million to \$10.4 million in 1H FY2015. The increase was due to improved product mix and steady demand for natural cheese products. In addition, capital spend at the Coburg site helped extract more value from milk solids and cheese yields improved.

The Tatura segment saw a reduction in normalised PAT from \$12.9 million to \$3.1 million in 1H FY2015. The nutritional business delivered an increase in sales as the sales mix changed with greater volumes of canned infant and growing up products manufactured at the Derrimut site. The decrease in world commodity prices had a significant impact on the Tatura result as margins were eroded due to lower selling prices.

The half-year result is influenced by seasonal factors. As in prior years, the result for the half-year is therefore not expected to reflect the proportional full year result of the Group.

Milk supply

Bega Cheese's milk supply remains aligned to our customers' needs and sufficient to ensure the efficient operation of our production facilities. The Milk Sustainability and Growth Program has played a major role in securing and growing milk supply with over 90% of milk supplied by farms under this initiative. Projects submitted and approved under the Growth Program will result in suppliers directly investing almost \$50 million in their dairy farming businesses for future milk production growth. Total milk intake for 1H FY2015 was 367 million litres, an increase in intake of 8% over the prior period.

Operations

The Group operated six production facilities during the reporting period.

Lagoon Street, Bega, New South Wales

Cheddar cheese, whey powder and natural snacks production continued at Lagoon Street, Bega. Demand for products from this site remained steady throughout 1H FY2015. Total production was in line with the prior period.

Coburg, Victoria

Cheddar cheese and liquid whey production continued at Coburg, Victoria. Total production increased during 1H FY2015 as a result of:

- improved cheddar production and whey handling capability as a result of a capital upgrade completed in FY2014
- Bega Cheese Group optimising returns from the total milk pool by redirecting milk away from Tatura into Coburg where higher dairy product returns were available.

Ridge Street, Bega, New South Wales and Strathmerton, Victoria

The cheese cut, pack and process operations continued to focus on operational efficiency and cost control in 1H FY2015. Volumes were steady during 1H FY2015, however production mix moved from processed cheese products into naturals products giving better returns.

Tatura, Victoria

Milk intake to the Tatura site increased by 8% in 1H FY2015. This enabled increases in production of most products, particularly cream cheese and powder. However, with the fall in commodity prices, there was significant margin erosion as sales prices for these products fell by approximately 50%. The Group directed as much milk as practicable out of products impacted by the commodity movements order to improve product mix during the period.

Derrimut, Victoria

The Derrimut site commenced production in March 2014 and now contributes over 10% of nutritional production through canning of infant formula. This has enabled the Bega Cheese Group to achieve higher margins for nutritional products as sales move up the value-add chain.

DIRECTORS' REPORT (CONTINUED)

Cash flows

The Group had a net cash outflow from operating activities of \$50.5 million, compared to a net cash inflow of \$6.0 million in 1H FY2014. After normalising for payments made under the Milk Sustainability and Growth Program of \$18.6 million, the net cash outflow was \$31.9 million, which was largely the result of factors impacting working capital, including:

- a build-up of inventory through the first half of the financial year due to higher milk intake and overall production in Spring, with inventory at 28 December 2014 being \$203.7 million, compared to \$184.2 million at 30 June 2014
- an increase in trade and other receivables as a result of stronger total sales revenue in 1H FY2015 and timing of debtor receipts, with receivables being \$131.0 million compared to \$106.7 million at 30 June 2014
- a reduction in trade and other payables due to timing issues with payables being \$134.8 million compared to \$164.2 million at 30 June 2014. This was largely due to accrued payments to be made under the Milk Sustainability and Growth Program and to major suppliers.

Capital programme

The Group has continued to review opportunities for expanding and optimising its facilities. The current focus is on planning capital projects where the expenditure is weighted to 2H FY2015 and into FY2016. As a result, capital spend of \$6.0 million in 1H FY2015 has been lower than the prior period, with the majority of capital expenditure programmes directed towards existing core business activities.

Markets and sales

During 1H FY2015 the Group has continued to focus on its key platforms of consumer packaged dairy goods, infant and growing-up nutritional powders and core dairy ingredients.

Weakening dairy commodity prices in 1H FY2015 provided a difficult environment for the global dairy industry. Although some relief has come from the weakening Australian dollar, the impact on the Group's financial performance was moderated somewhat due to timing of the Group's hedge positions in 1H FY2015. Bega Cheese Group continues to see solid demand in the domestic market and steady margins for products not impacted by commodity prices.

The Group generated consolidated revenue of \$552.5 million during 1H FY2015 compared to \$510.6 million in 1H FY2014, being an increase of 8%. Sales volumes were in line with the prior period with the additional revenue coming from product mix moving to higher value-added products and less from dairy commodities. With skim milk powder commodity prices dropping 53% since the high in FY2014, milk was channelled more into cheese production which helped retain margin. Sales of canned products also increased, utilising the new capacity at the Derrimut plant.

Strategy

The Board's strategy continues to focus on creating value for our customers, suppliers and shareholders, optimising returns from milk solids, safeguarding and energising the workforce and continuing long term support and engagement with the communities in which the Group operates.

There are a number of organic growth opportunities for the business including further value adding of our whey streams, increased international demand for our existing processed cheese capacity and continued growth in high value dairy nutritionals.

The Group continues to leverage off its competitive advantages in nutritional food products, FMCG cheese packaging, cream cheese and its core dairy manufacturing network. The Group is also investing in infrastructure and skills within the business to ensure Bega Cheese Group is the dairy company of choice for customers, staff, suppliers and investors.

Outlook

The outlook for dairy commodities continues to be positive in the long term due to the global demand for dairy. Although there are positive signs of improved prices for global dairy commodities and improved currency relativity, in the short term, downward pressures will continue to impact commodity sales and margins. Bega Cheese Group is well placed to meet these challenges through focus on products with stronger margins and the flexibility of the supply chain to change production patterns accordingly. A focus for the next twelve months will be on inventory management to ensure that profit can be maximised as changes in commodity prices occur.

Our conclusion is that the outlook for dairy in general is stable and this directs the strategic activities of the Group.

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under *Section 307C* of the *Corporation Act 2001* is set out on page 11.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

SUBSEQUENT EVENT

Dividend

On 18 February 2015, the Directors declared an interim fully franked dividend of 4.0 cents per share, which represents a distribution of \$6,104,000. An interim dividend of 4.0 cents per share was paid in respect of 1H FY2014.

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



Barry Irvin
Executive Chairman
Melbourne



Joy Linton
Independent Director
London

18 February 2015



Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the review of Bega Cheese Limited for the half-year ended 28 December 2014, 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 review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bega Cheese Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'SJ Bourke', is written over a horizontal line.

SJ Bourke
Partner
PricewaterhouseCoopers
Sydney
18 February 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Profit and Loss and Other Comprehensive Income

		CONSOLIDATED	
		28 December	29 December
		2014	2013
		\$'000	\$'000
	Notes		
Revenue	9	552,500	510,616
Cost of sales	9	(496,182)	(437,874)
Gross profit		56,318	72,742
Other revenue	9	3,315	4,747
Other income	9	1,316	822
Distribution expense		(21,522)	(21,221)
Marketing expense		(3,299)	(3,020)
Occupancy expense		(1,599)	(1,551)
Administration expense	9	(25,150)	(22,774)
Finance costs		(1,637)	(4,322)
Share of net profit of joint venture		151	559
Profit before income tax		7,893	25,982
Income tax expense		(1,839)	(7,252)
Profit for the period		6,054	18,730
Other comprehensive (expense)/income:			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges		(2,667)	1,955
Change in the fair value of other financial assets		-	38,612
Total other comprehensive income		(2,667)	40,567
Total comprehensive income for the period		3,387	59,297
Profit attributable to owners of Bega Cheese Limited		6,054	18,730
Total comprehensive income for the period attributable to owners of Bega Cheese Limited		3,387	59,297
		2015	2014
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share		4.0	12.3
Diluted earnings per share		4.0	12.2

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

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet

	Notes	CONSOLIDATED	
		28 December 2014 \$'000	30 June 2014 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		30,705	28,630
Trade and other receivables		131,045	106,660
Derivative financial instruments		21	2,084
Inventories		203,659	184,167
Total current assets		365,430	321,541
Non-current assets			
Property, plant and equipment		208,218	213,567
Deferred tax assets		12,617	10,907
Intangible assets		1,487	1,481
Investments accounted for using the equity method		1,041	1,141
Total non-current assets		223,363	227,096
Total assets		588,793	548,637
LIABILITIES			
Current liabilities			
Trade and other payables		134,750	164,152
Derivative financial instruments		7,038	232
Borrowings	4	601	588
Current tax liabilities		22,143	22,425
Provisions		25,589	24,773
Total current liabilities		190,121	212,170
Non-current liabilities			
Borrowings	4	85,000	20,000
Provisions		2,808	2,079
Total non-current liabilities		87,808	22,079
Total liabilities		277,929	234,249
Net assets		310,864	314,388
EQUITY			
Contributed equity	5a	103,942	103,642
Reserves		19,379	22,390
Retained earnings		187,543	188,356
Capital and reserves attributable to owners of Bega Cheese Limited		310,864	314,388
Total equity		310,864	314,388

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes In Equity

	Contributed equity	Share based payment reserve	Capital profits reserve	Hedging reserve	Fair value reserve	Transactions with non-controlling interest	Retained earnings	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2013	101,902	518	33,959	(3,226)	6,901	(12,567)	134,465	261,952
Profit for the period	-	-	-	-	-	-	18,730	18,730
Other comprehensive income for the period	-	-	-	1,955	38,612	-	-	40,567
Transactions with owners in their capacity as owners								
- Share based payments relating to incentives (note 6)	-	542	-	-	-	-	-	542
- Shares issued as consideration net of transaction costs (note 5)	1,740	-	-	-	-	-	-	1,740
- Dividends provided for or paid	-	-	-	-	-	-	(6,075)	(6,075)
Balance as at 29 December 2013	103,642	1,060	33,959	(1,271)	45,513	(12,567)	147,120	317,456
Balance as at 1 July 2014	103,642	811	33,959	187	-	(12,567)	188,356	314,388
Profit for the period	-	-	-	-	-	-	6,054	6,054
Other comprehensive income for the period	-	-	-	(2,667)	-	-	-	(2,667)
Transactions with owners in their capacity as owners								
- Share based payments relating to incentives (note 6)	-	(44)	-	-	-	-	-	(44)
- Issue of shares relating to incentives (note 5, 6)	300	(300)	-	-	-	-	-	-
- Dividends provided for or paid	-	-	-	-	-	-	(6,867)	(6,867)
Balance as at 28 December 2014	103,942	467	33,959	(2,480)	-	(12,567)	187,543	310,864

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows

		CONSOLIDATED	
		28 December	29 December
		2014	2013
		\$'000	\$'000
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
	Receipts from customers inclusive of goods and services tax	548,997	521,361
1a	Payments to suppliers and employees inclusive of goods and services tax	(595,390)	(509,159)
	Interest and other costs of financing paid	(1,459)	(3,472)
	Income taxes paid	(2,686)	(2,729)
	Net cash (outflow)/inflow from operating activities	(50,538)	6,001
CASH FLOWS FROM INVESTING ACTIVITIES			
1b	Payments related to corporate activity	-	(1,961)
	Interest received	158	125
	Payments for property, plant and equipment	(6,019)	(16,844)
	Payments for shares in listed companies	-	(506)
	Proceeds from sale of property, plant and equipment	79	35
	Joint venture partnership distributions received	250	625
	Net cash (outflow) from investing activities	(5,532)	(18,526)
CASH FLOWS FROM FINANCING ACTIVITIES			
	Proceeds from borrowings	65,012	10,492
	Dividends paid to members	(6,867)	(6,075)
	Net cash inflow from financing activities	58,145	4,417
	Net increase/(decrease) in cash and cash equivalents	2,075	(8,108)
	Cash and cash equivalents at the beginning of the period	28,630	22,698
	Cash and cash equivalents at the end of the period	30,705	14,590

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

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

a. Milk Sustainability and Growth Program

On 25 March 2014, Bega Cheese Group announced it would allocate up to \$25,000,000 to secure a sustainable milk supply. Farmer suppliers were invited to apply to enter the Milk Sustainability and Growth Program, with the first payments made in May 2014. The Milk Sustainability and Growth Program paid out \$21,200,000 by 28 December 2014 and with the remainder of the funds allocated, the Board resolved to close the Program to new applications on 4 February 2015. Amounts included in the financial statements as an expense are recognised on the basis of constructive obligations existing at 28 December 2014 and are as follows:

	CONSOLIDATED	
	28 December 2014 \$'000	29 December 2013 \$'000
Impact on cost of sales and EBITDA	(10,642)	-
Impact on income tax expense	3,193	-
Impact on profit for the period	(7,449)	-
Impact on cash flows	(18,614)	-

The impact on cash flows due to the Milk Sustainability and Growth Program comprises accruals held in the balance sheet at 30 June 2014 and paid in 1H FY2015 and the expense recognised in the period. These payments are included in the outflow from operating activities in the Consolidated Statement of Cash Flows.

Payments made under the Milk Sustainability and Growth Program are one-off in nature, intended to generate investments on-farm to improve sustainability of milk production, grow milk supply over time and secure the Group's milk pool in the medium term.

b. Sale of WCB shares

In January 2014, Bega Cheese sold its complete holding of 10,521,910 WCB shares to Saputo Inc. with Bega Cheese receiving \$98,906,000 by the end of February 2014. This transaction did not impact the 1H FY2015 result but Bega Cheese incurred costs in 1H FY2014 relating to the transaction as follows:

	CONSOLIDATED	
	28 December 2014 \$'000	29 December 2013 \$'000
Transaction costs (included in administration costs)	-	(958)
Impact on EBITDA and EBIT (note 3)	-	(958)
Finance costs	-	(902)
Impact on profit before income tax	-	(1,860)
Impact on income tax expense	-	550
Impact on profit for the period	-	(1,310)

2. SEASONAL FACTORS

The Consolidated Statement of Comprehensive Income for the half-year ended 28 December 2014 is not expected to reflect the proportional full year result of the Group due to seasonal factors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION

a. Description of segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group has two reporting segments:

- i. Bega Cheese - manufactures natural cheese, processed cheese, powders and butter and packages cheese products.
- ii. Tatura Milk - manufactures and packages cream cheese, powders, butter and nutritional.

b. Segment information provided to the Board of Directors

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
	\$'000	\$'000	\$'000	\$'000
Consolidated profit and loss				
Period Ending 28 December 2014				
Revenue	372,364	197,958	(17,822)	552,500
EBITDA	17,202	3,445	-	20,647
Depreciation, amortisation and impairment	(6,168)	(5,101)	-	(11,269)
EBIT	11,034	(1,656)	-	9,378
Interest revenue	276	69	(193)	152
Interest expense	(992)	(838)	193	(1,637)
Profit before income tax	10,318	(2,425)	-	7,893
Income tax expense	(2,803)	964	-	(1,839)
Profit for the period	7,515	(1,461)	-	6,054
Impact of current period events on EBITDA (note 1)				
Milk Sustainability and Growth Program	(4,107)	(6,535)	-	(10,642)
Period Ending 29 December 2013				
Revenue	337,058	182,905	(9,347)	510,616
EBITDA	18,326	22,501	-	40,827
Depreciation, amortisation and impairment	(6,311)	(4,348)	-	(10,659)
EBIT	12,015	18,153	-	30,168
Interest revenue	52	84	-	136
Interest expense	(3,691)	(631)	-	(4,322)
Profit before income tax	8,376	17,606	-	25,982
Income tax expense	(2,515)	(4,737)	-	(7,252)
Profit for the period	5,861	12,869	-	18,730
Impact of current period events on EBITDA (note 1)				
Sale of WCB shares and related costs	(958)	-	-	(958)
Total segment assets and liabilities				
Total segment assets 28 December 2014	427,950	259,490	(98,647)	588,793
Total segment assets 30 June 2014	392,550	234,781	(78,694)	548,637
Total segment liabilities 28 December 2014	181,517	118,199	(21,787)	277,929
Total segment liabilities 30 June 2014	146,719	89,364	(1,834)	234,249
Purchases of property, plant and equipment				
Purchases to 28 December 2014	2,410	3,609	-	6,019
Purchases to 29 December 2013	5,740	11,104	-	16,844

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c. Other segment information

i. Segment revenue

Sales between segments are carried out at arm's length and eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Consolidated Statement of Comprehensive Income.

ii. EBITDA

The Board of Directors assess performance of the operating segments based on EBITDA.

iii. Segment assets and liabilities

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

4. BORROWINGS

During 1H FY2015, the Group re-instated facility limits under its current borrowings structure. This increased facility limits available under the 3.5 year Revolving Cash Advance Facility and the Inventory Facility as shown in the table below:

	CONSOLIDATED	
	28 December	30 June
	2014	2014
	\$'000	\$'000
Undrawn facilities expiring within one year	-	50,000
Undrawn facilities expiring beyond one year	68,399	27,412
Drawn facilities	85,601	20,588
Total facilities	154,000	98,000
Total facilities are represented by:		
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	70,000	39,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	1,000	1,000
Inventory Facility	75,000	50,000
Overdraft Facility	6,500	6,500
Vat Financing Facility	1,500	1,500
Total facilities	154,000	98,000

5. SHARE CAPITAL

a. Share capital

	CONSOLIDATED	
	28 December	30 June
	2014	2014
	\$'000	\$'000
Ordinary shares fully paid	103,942	103,642

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. Movement in number of shares and share capital value

	Ordinary Shares Number '000	Ordinary Shares \$'000
Shares on issue at 1 July 2013	151,866	101,902
Shares issued as purchase consideration for other financial assets, net of costs	380	1,740
Ordinary shares on issue at 29 December 2013 and 30 June 2014	152,246	103,642
Ordinary shares on issue at 1 July 2014	152,246	103,642
Shares issued under the Bega Cheese Limited Long Term Incentive Plan	357	300
Ordinary shares on issue at 28 December 2014	152,603	103,942

357,143 shares were issued on 25 August 2014 on conversion of performance rights previously granted to the Chief Executive Officer under the Long Term Incentive Plan 2011-2014. For further details, see note 6.

6. SHARE BASED PAYMENTS

Bega Cheese Group operated a Long Term Incentive Plan for 2011-14 for which the outcome was determined in August 2014 and reflected in the FY2014 accounts. The outcome awarded 357,143 performance rights, which were issued as shares on 25 August 2014. During 1H FY2015, \$44,000 was also credited to comprehensive income in respect of the 2012-15 Long Term Incentive Plan. The movement on the share based payment reserve is as follows:

	CONSOLIDATED	
	28 December 2014 \$'000	29 December 2013 \$'000
Balance of share based payment reserve - beginning of period	811	518
Amounts in relation to Long Term Incentive Plan	(44)	542
Shares issued during the period	(300)	-
Balance of share based payment reserve - end of period	467	1,060

7. NON-CASH INVESTING ACTIVITY

	CONSOLIDATED	
	28 December 2014 \$'000	29 December 2013 \$'000
Dividends paid by way of share issue under dividend re-investment plan	-	1,101
Payment for investments by issue of shares	-	1,743

8. SUBSEQUENT EVENT

a. Dividend

On 18 February 2015, the Directors declared an interim fully franked dividend of 4.0 cents per share, which represents distribution of \$6,104,000. An interim dividend of 4.0 cents per share was paid in respect of 1H FY2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. RECLASSIFICATION OF ITEMS IN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In order to improve presentation in line with accounting standards, other income is separately disclosed from other revenue in the Consolidated Statement of Comprehensive Income. As a result, the classification of certain other items was reviewed and amended during the period to assist with internal management reporting. These changes have been reflected in the accounts by restating the prior period balances as follows:

	CONSOLIDATED			
	29 December 2013 As reported \$'000	Restatement Bega Cheese \$'000	Restatement Tatura Milk \$'000	29 December 2013 Restated \$'000
Revenue	510,616	-	-	510,616
Cost of sales	(441,772)	2,212	1,686	(437,874)
Gross profit	68,844	2,212	1,686	72,742
Other revenue	5,569	(207)	(615)	4,747
Other income	-	207	615	822
Distribution expense	(21,221)	-	-	(21,221)
Marketing expense	(3,020)	-	-	(3,020)
Occupancy expense	(1,551)	-	-	(1,551)
Administration expense	(18,876)	(2,212)	(1,686)	(22,774)
Finance costs	(4,322)	-	-	(4,322)
Share of net profit of joint venture	559	-	-	559
Profit before income tax	25,982	-	-	25,982

10. BASIS OF PREPARATION

This consolidated interim financial report for the half-year reporting period ended 28 December 2014 (corresponding prior period being 29 December 2013) has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This interim report includes the result of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the subsidiary, Tatura Milk Industries Limited (subsidiary or Tatura Milk) and joint venture, Capitol Chilled Foods (Australia) Pty Ltd (joint venture or CCFA).

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2014 and any public announcements made by Bega Cheese Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

a. New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, however the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. The Group also implemented a revised classification of items in the income statement to better align the presentation with accounting standards.

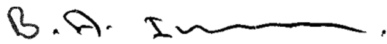
DIRECTORS' DECLARATION

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 12 to 20 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 28 December 2014 and of its performance for the half-year ended on that date; and
- b. there are reasonable grounds to believe that Bega Cheese Limited will be able to pay its debts as and when they become due and payable.

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



Barry Irvin
Executive Chairman
Melbourne



Joy Linton
Independent Director
London

18 February 2015



Independent Auditor's Review Report to the Members of Bega Cheese Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bega Cheese Limited (the Company), which comprises the consolidated balance sheet as at 28 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the Directors' declaration for the Bega Cheese Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 28 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bega Cheese Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bega Cheese Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 28 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'SJ Bourke'.

SJ Bourke
Partner
PricewaterhouseCoopers
Sydney

18 February 2015