



ASX ANNOUNCEMENT

Appendix 4D and Half Year Accounts 2016

I have pleasure in enclosing the Appendix 4D in relation to the Half Year ended 27 December 2015 together with the 2016 Interim Report for the Half Year ended 27 December 2015.

A handwritten signature in black ink that reads "B. G. Kelly". The signature is written in a cursive style with a long, sweeping tail on the letter "y".

Brett Kelly
Company Secretary

24 February 2016

For further information please contact

Brett Kelly
Company Secretary
Bega Cheese Limited
02 6491 7777

www.begacheese.com.au



Bega Cheese Limited

ASX Half-Year Information - 27 December 2015

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with
the 30 June 2015 Annual Report

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4D Item	Percentage	Amount \$'000
Revenue from ordinary activities	Up 1.6%	To 561,373
Profit from ordinary activities after tax	Up 139.5%	To 14,499
Profit from ordinary activities after tax attributable to members	Up 139.5%	To 14,499
Net Profit for the period attributable to members	Up 139.5%	To 14,499

Net Tangible Assets Backing	27 December 2015	28 December 2014
Net tangible assets backing per share	\$2.04	\$1.94

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 24 February 2016 (<i>Current Year</i>)	4.5	4.5

Record Date for Determining Entitlements	Date
Interim Dividend	3 March 2016

Explanation of revenue

Revenue for the Group totalled \$561.4 million for 1H FY2016, being an increase of 1.6% on 1H FY2015. Provided below are the key factors impacting revenue in the period:

- This modest increase in revenue has been achieved even though global dairy commodity prices remained weak throughout the current period, with lower average dairy commodity sales values being offset by increasing sales of higher value added products
- An increase in infant and nutritional formula sales volume and value in canned finished goods in response to increasing demand from customers and development of new markets
- An increase in cream cheese sales volume as new products have been launched and new markets have been identified
- An increase in Skim Milk Powder (SMP) sales volume was a good sign of the Group's ability to move dairy commodity products in difficult conditions of excess global supply, although the decrease in average global selling price per metric tonne has decreased total SMP sales value from 1H FY2015
- Overall sales through contract manufacturing, particularly cheddar and processed cheese, were relatively stable in terms of total volume, although the Group did experience a change in the mix of the business as various customers responded to competitive domestic and international trading conditions.

Explanation of profit from ordinary activities after tax

The Group generated profit after tax of \$14.5 million, being an increase of 139%. Provided below are the key factors impacting profit in the period:

- statutory profit after tax increased by \$8.4 million on the prior period, with a decrease in expenses under the Milk Sustainability and Growth Program of (\$7.1) million after tax comprising a large component of the significant improvement in statutory profit

RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

- the Group generated normalised profit after tax of \$14.8 million after adjusting for the effect of the Milk Sustainability and Growth Program, being an increase of 9.9%
- dairy commodity prices have continued to fall adversely impacting the selling price and reducing inventory value of the Group's dairy commodity products. The impact on profit of the decrease in commodity values was offset by the Group's strategic focus on other value-add products and a reduction in the milk price paid to farmers
- the Group's focus on costs resulted in a reduction in average manufacturing costs particularly in relation to activities at the Derrimut canning facility as volume through that plant increased significantly
- net interest expense totalled \$2.0 million, being an increase of \$0.4 million reflecting higher average net debt throughout the current period to fund inventory offset by a decrease in the average interest rate.

Explanation of net tangible assets backing

Net tangible assets backing has increased over the prior period whilst the number of shares on issue has remained stable. The increase in net assets is largely attributable to an improved trading performance, net of dividend payments.

Explanation of dividends

The interim dividend declared for the current period is 4.5 cents. The interim dividend will be paid on 17 March 2016.

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%
Bega Investments Pty Ltd	100%	100%
Name of joint venture	Current period	Previous period
Capitol Chilled Foods (Australia) Pty Limited	25%	25%

Bega Investments Pty Ltd is a wholly owned subsidiary of Bega Cheese Limited. With effect from 6 January 2016 this entity held the Group's interest in the Bemore joint arrangement with Blackmores Limited. Bemore joint arrangement was formalised on 6 January 2016 and is owned and controlled to 50% by each of Bega Cheese Limited and Blackmores Limited with both parties sharing equally in the branding, selling, marketing and distribution of life stage nutritional powders sourced from Bega Cheese's subsidiary Tatura Milk.

Further information

For further information, please refer to the 30 June 2015 Annual Report and the Consolidated 2016 Interim Report attached to this statement.



Bega Cheese Limited

**Consolidated 2016 Interim Report for the
Half-Year Ended 27 December 2015**

ABN 81 008 358 503

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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 27 December 2015.

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

Richard Cross

Supplier Director
Director since December, 2011

Peter Margin

Chair of the Nomination, Remuneration and Human Resources Committee
Independent Director
Director since June, 2011

Raelene Murphy

Chair of the Audit & Risk Committee
Independent Director
Director since June, 2015

Jeff Odgers

Chair of the Milk Services Committee
Supplier Director
Director since December, 2011

Richard Parbery

Supplier Director
Director since September, 1988

Richard Platts

Supplier Director
Director since November, 2000

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 2015 to 27 December 2015, being the first half of FY2016 ("1H FY2016"). 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 2014 to 28 December 2014 ("1H FY2015"). The minor difference in the number of trading days in 1H FY2016 compared to the prior period has not had a material impact on the comparative financial performance in the current period.

For purposes of the Consolidated Balance Sheet, two prior comparisons have been provided, being:

1. 30 June 2015, as reflecting the financial position at the end of the last statutory full year reporting period; and
2. 28 December 2014, which demonstrates the financial position at the end of the previous statutory half-year reporting period, being the more relevant prior period financial position given the seasonal nature of the Group as to its milk processing activities. The comparable difference in the balance sheet date for 1H FY2016 compared to 28 December 2014 does not have a material impact on the comparative financial position of the Group.

REVIEW OF OPERATIONS

The principal activity of the Group during 1H FY2016 was receiving, processing, manufacturing and distributing dairy and associated products.

Highlights

The first half of FY2016 saw the Group achieve the following key highlights:

- generated revenue of \$561.4 million, being an increase of 1.6% on the prior period against a backdrop of continued lower dairy commodity prices in 1H FY2016
- improvements in gross margin following the Group's strategy to focus on higher value-add products within the Group's product mix and a reduction in the average cost of milk from suppliers
- continued focus on manufacturing costs as manufacturing volumes have increased
- increased utilisation of the Derrimut infant and nutritionals canning and blending facility with the plant operating 24 hours per day, seven days per week since early August 2015
- launched the Group's bio-nutrients platform, appointed Matthieu Arguillere as General Manager Bio-nutrients and commenced a detailed review of business opportunities in this area
- on 2 July 2015 announced an amendment to the infant formula supply agreement with Bellamy's Australia Limited ("Bellamy's"), increasing the Group's total volume to be sold to this valued business partner
- on 29 October 2015 announced the formation of a joint arrangement with Blackmores Limited ("Blackmores") in which the Group and Blackmores share equally in the branding, selling, marketing and distribution of branded infant and nutritionals formula in the domestic and export markets
- on 24 February 2016 Bega Cheese declared a fully franked interim dividend of 4.5 cents per share, payable on 17 March 2016.

EARNINGS PERFORMANCE REVIEW 1H FY2016

Group Statutory Result 1H FY2016

The Group generated earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$32.4 million, compared to \$20.6 million in 1H FY2015, being an increase of 57%.

The Group generated earnings before interest and tax ("EBIT") of \$21.7 million compared to \$9.4 million in 1H FY2015, being an increase of 131%.

The Group generated profit before tax ("PBT") of \$19.7 million, compared to \$7.9 million in 1H FY2015, being an increase of 150%.

The Group generated profit after tax ('PAT') of \$14.5 million, compared to \$6.1 million in 1H FY2015, being an increase of 139%.

The half-year result is influenced by seasonal factors. As in prior years, the result for 1H FY2016 is not expected to reflect the proportional full year result of the Group.

The remainder of this Earnings Performance Review for 1H FY2016 will focus on the normalised result, consistent with prior years.

Group Normalised Result 1H FY2016

The only normalising adjustment in 1H FY2016 related to the carry-over of the Milk Sustainability and Growth Program. In 1H FY2016 the net cost of the Milk Sustainability and Growth Program was (\$0.5) million, comprising final payments to suppliers under the program and program management costs, compared to (\$10.6) million in 1H FY2015.

The significant majority of the program was accounted for in FY2014 and FY2015 and no material normalising adjustments are expected in relation to the program beyond FY2016. Further details of the Milk Sustainability and Growth Program are addressed in the 2015 Annual Report.

The Group generated normalised EBITDA of \$32.9 million, compared to \$31.3 million in 1H FY2015, being an increase of 5.1%.

DIRECTORS' REPORT (CONTINUED)

The Group generated normalised EBIT of \$22.2 million compared to \$20.0 million in 1H FY2015, being an increase of 10.7%.

The Group generated normalised PBT of \$20.2 million, compared to \$18.5 million in 1H FY2015, being an increase of 9.2%.

The Group generated PAT of \$14.8 million, compared to \$13.5 million in 1H FY2015, being an increase of 9.9%.

The table below demonstrates the movement between the statutory reporting financial performance and the normalised financial performance for the Group in adjusting for Milk Sustainability and Growth Program costs.

Normalised result for the Group

Consolidated	Milk Sustainability		
	Per Financial Statements	and Growth adjustment	Normalised outcome
	\$'000	\$'000	\$'000
Period Ending 27 December 2015			
Revenue	561,373	-	561,373
Cost of sales	(484,522)	488	(484,034)
Gross profit	76,851	488	77,339
Other income and expenses	(44,480)	-	(44,480)
EBITDA	32,371	488	32,859
Depreciation, amortisation and impairment	(10,701)	-	(10,701)
EBIT	21,670	488	22,158
Finance costs, net	(1,926)	-	(1,926)
Profit before income tax	19,744	488	20,232
Income tax expense	(5,245)	(146)	(5,391)
Profit for the period	14,499	342	14,841
Gross margin - percentage	14%		14%
Basic earnings per share - cents	9.5		9.7
Period Ending 28 December 2014			
Revenue	552,500	-	552,500
Cost of sales	(492,889)	10,642	(482,247)
Gross profit	59,611	10,642	70,253
Other income and expenses	(38,964)	-	(38,964)
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	11%		13%
Basic earnings per share - cents	4.0		8.9

DIRECTORS' REPORT (CONTINUED)

Overview of Segment Normalised Performance

Bega Cheese

The Bega Cheese segment generated normalised PAT of \$9.3 million, compared to \$10.4 million in 1H FY2015, being a decrease of (10.6%).

Whilst the normalised PAT was down on the prior period, the underlying performance of the Bega Cheese segment was credible in light of the continued volatility in global dairy commodities and the high milk prices paid to farmers relative to those commodity markets.

The Bega Cheese segment highlights for the period were as follows:

- whilst total production, sales volume and operating costs were in line with expectations, strong competition at the beginning of FY2016 for NSW milk into fresh milk markets resulted in relatively high milk prices paid to NSW suppliers and a dis-link between the cost of milk and the recoverable value of commodity-based dairy products manufactured through the Bega operations
- milk intake from suppliers increased by 10.1% to 169 million litres reflecting the benefits of milk sustainability and growth initiatives implemented to date and seasonally favourable conditions in south east NSW
- off the back of higher milk volumes core dairy production increased by 4.5% on the prior period with increased operating efficiency and improved average conversion costs
- FMCG production increased marginally by 1.2% demonstrating a stable business mix
- revenue totalled \$366.8 million in 1H FY2016, being a decrease of (1.5%), with weak dairy commodity prices for bulk cheddar cheese and whey powder adversely impacting sales revenue
- the relative weakening of the value of the AUD and higher value-added product mix assisted Bega Cheese's export consumer packaged goods business to increase revenue by 2.7% in 1H FY2016, despite weak commodity prices and strong global competition.

Tatura Milk

The Tatura Milk segment generated normalised PAT of \$5.6 million, compared to \$3.1 million in FY2015, being an increase of 81%.

Tatura Milk's strong improvement in normalised PAT was the net outcome of mixed results for the segment. Very favourable improvements in its nutritional business have been partially offset by adverse movements in its dairy ingredients business, in circumstances where the dis-link in milk price paid to its suppliers compared to global dairy commodities continued into FY2016 longer than anticipated by the industry at the time opening milk prices were set.

The Tatura Milk segment highlights for the period were as follows:

- milk intake from suppliers increased by 3.2% to 197 million litres reflecting the benefits of the milk sustainability and growth initiatives which were offset by very dry seasonal conditions and a high cost of irrigation water throughout the Tatura milk collection area
- core dairy production increased by 5.2% as a result of the higher milk intake, improved milk yields and product mix
- nutritionals production (excluding contract manufacturing) increased as a result of ongoing demand from customers requiring bulk infant powder
- infant formula in finished canned format increased significantly in 1H FY2016, as the Derrimut canning line geared up to full production, with the site operating 24 hours, seven days a week since August 2015 significantly increasing value-added volume to the Group's product mix along with an increase in inventories
- ongoing demand for cream cheese products, with the launch of new products under retailers' brands in the domestic market quickly securing material market share since ranging, as well as strong interest from international markets as a result of new product formats and an active chef-led selling program in key South East Asian and Chinese markets

DIRECTORS' REPORT (CONTINUED)

- Skim Milk Powder (SMP) volume is a function of cream cheese and off the back of strong demand for cream cheese Tatura Milk also increased production and sales of SMP in 1H FY2016, with depressed selling prices for SMP generating negative returns from this product
- Markets for lactoferrin have contracted significantly in 1H FY2016 due to additional global production coming on line and a contraction in demand, particularly into China. This has suppressed short term sales volume and adversely impacted the average selling price of this product, resulting in Tatura Milk scaling back short term production of lactoferrin in the latter part of 1H FY2016
- Tatura Milk opened with a milk price to Southern suppliers of \$5.60/kg milk solids, which was in line with competition at the time, however further deterioration in global dairy commodity prices since the beginning of 1H FY2016, particularly SMP, has placed pressure on the overall returns of Tatura Milk and sustained the dis-link between milk price and dairy returns longer than initially anticipated.

Cash flows

The Group generated statutory net cash inflow from operating activities of \$6.2 million in 1H FY2016, compared to net cash outflow of (\$50.5) million in 1H FY2015.

The Group generated normalised net cash inflow of \$8.0 million in 1H FY2016, compared to a normalised net cash outflow of (\$31.9) million in 1H FY2015, being an improvement of \$39.9 million over the prior period. This improvement in normalised operating cash flow has resulted from a sound improvement in profitability and management of accounts receivable and accounts payable during the period.

In line with the Group's seasonal spring peak net working capital increased from \$175.3 million at 30 June 2015 to \$200.5 million at 27 December 2016. The Group's net working capital of \$200.5 million is consistent with the corresponding prior December period.

Net debt totalled \$75.0 million as at the end of 1H FY2016, being an increase of \$16.3 million since 30 June 2015. This increase in net debt was largely the result of a seasonal build up in inventory leading up to 27 December 2015, in line with expectations.

Capital investment during 1H FY2016

Bega Cheese Group capital expenditure in 1H FY2016 totalled \$14.8 million (1H FY2015: \$6.0 million). In addition to ongoing preventative capital works the Group has commenced the following capital expenditure initiatives in 1H FY2016:

- increasing efficiency, quality controls and production capacity at the Derrimut canning and blending facility
- increasing the efficiency and production capacity of natural cheese slices at Ridge Street, Bega
- increasing the efficiency, flexibility and production capacity of shredded cheese at Ridge Street, Bega
- increasing automation of various production and manual handling processes throughout the business
- development of a new enterprise resource planning and management reporting information system (ERP) that will ultimately streamline business processes and accelerate management analysis and reporting.

The Group also continues to explore opportunities to invest in extracting and maximising the recoverable value of milk and whey protein to compliment the nutritionals and bio-nutrients activities.

Derrimut capacity upgrade

With the rapid growth in demand for canned finished infant products the initially installed capacity of the Derrimut site has quickly been consumed. The site has operated on 24 hours by seven days a week since August 2015. These operating conditions can service current demand for the short term. However, additional capital expenditure has been approved which will increase can seaming throughput and blending capacity in 2H FY2016.

DIRECTORS' REPORT (CONTINUED)

Revised syndicated debt facility

Bega Cheese Group revised its borrowing facilities during 1H FY2016 to provide additional headspace for anticipated higher demand in working capital requirements and increased spend on a number of capital projects. The additional funds were renegotiated under the Syndicated Facility with Coöperatieve Central Raiffeisen-Boerenleenbank. B.A. (Rabobank Australia Branch), and Westpac Banking Corporation. The Group had secured \$193.0 million in available facilities as at 27 December 2015 (up from the \$154.0 million as at 30 June 2015), including a short term seasonal working capital facility.

The Group's net debt as at 27 December 2015 was \$75.0 million, well within the available facility limits.

Milk supply

The Group's milk suppliers have continued to respond positively to the Milk Sustainability and Growth Program. Significant on-farm investment identified through the launch of the program is now being commissioned with the benefits of these investments expected to result in an increase in milk supplied to the Group over the next two to three years. The investment activity has also provided economic benefits to the communities in which the Group's farmers operate, with local businesses, contractors and employees all gaining from the program.

The climatic season in 1H FY2016 has varied greatly in the two main farming regions.

Farmers of South East NSW supplying the Bega Lagoon Street site have enjoyed extremely favourable conditions, with regular rainfall providing ideal farming conditions although a couple of flood events also needed to be managed. Farmers have responded very well to the good conditions and produced significant stored fodder for future use.

Conditions in Northern Victoria have been particularly harsh, with very low rainfall leading into Spring quickly escalating to drought conditions through Spring and into Summer. High cost of water and softer milk prices compared to the prior year have softened growth in milk production and consumed feed reserves. Against this backdrop, the Directors and management are working hard to find innovative ways to support the farmers, including options in relation to securing ongoing access to water for irrigation.

Bellamy's supply agreement

On 2 July 2015 Bega Cheese and Bellamy's announced an amendment to their existing infant formula supply arrangements. The parties strengthened their alliance by confirming an increase to the minimum volume of infant formula Bega Cheese Group will supply Bellamy's into the future. This minimum volume commitment provides the Group certainty as to plant utilisation, supply chain and raw materials procurement. It also provides Bellamy's certainty as to how a large part of their immediate growth will be serviced and security as to the supply chain for the unique raw materials required to service their premium organic infant formula requirements.

The benefit of increasing volume to Bellamy's began to flow through to Bega Cheese Group in the 1H FY2016 result.

Blackmores joint arrangement

On 29 October 2015 Bega Cheese and Blackmores announced the formation of the Bemore joint arrangement. The Bemore joint arrangement launched its first product on 16 January 2016. The Bemore joint arrangement will see Tatura Milk supply finished infant nutritional powders and other life stage dairy based nutritional powders to the joint arrangement into the future. Blackmores and Bega Cheese will share equally in managing the operations of the business with Blackmores providing its sales and marketing expertise in domestic and international distribution channels.

Both Bega Cheese and Blackmores are very excited about the future prospects of the Bemore joint arrangement and see it as an alliance that will mutually benefit both companies.

During the latter part of 1H FY2016 the Group invested in developing the unique infant formula specifications for the Bemore products and commenced procuring raw materials and packaging for supply of finished goods to the Bemore joint arrangement. Blackmores also reviewed branding, marketing, packaging design and market distribution channels on behalf of the Bemore joint arrangement.

Whilst extensive preliminary strategic development, planning and setup was undertaken by both parties during 1H FY2016, no formal business activity had been conducted by the Bemore joint arrangement prior to 27 December 2015.

DIRECTORS' REPORT (CONTINUED)

Strategic Outlook

The Board will continue to focus on and invest in our key strategic platforms of dairy ingredients, consumer packaged goods, value added dairy nutritionals and bio-nutrients.

As has been demonstrated by our investment strategy and business alliances the Group continues to add capability and capacity in higher value consumer goods, dairy nutritionals and nutraceuticals products.

Our investment approach reflects our strategic objectives of maximising value through the production of high value dairy ingredients, building on our traditional strengths in consumer goods and leveraging our knowledge and skills in nutritional products and micro nutrients.

Our strategic goal is to move away from bulk and retail commodities in both the domestic and international markets. The business will continue to focus on the best product and market destinations for the milk received. As with our cheese manufacture the strategic endeavour is to produce high value ingredients and participate in the value chain by having all our manufactured product destined for consumer packs.

The above strategy is reflected in the fact that all cheddar cheese produced by Bega Cheese is destined for consumer packs. Increasingly volumes of cream cheese are being packaged for retail and food service and our infant formula business is quickly evolving from bulk production to consumer packs.

The business will continue to execute on strategy focusing on efficient manufacturing and value added infrastructure and product mixes that are aligned with growing market segments and create value from all the components of our milk. Secure high quality, sustainably produced and growing milk supply remain very important to the business. The Milk Sustainability and Growth Program has been very well received and has served as a catalyst for business development and innovation for many of our dairy farmer suppliers.

The business is positioned very well to respond to market opportunities and the ongoing strength of the balance sheet sees the Group continuing to consider and investigate a number of acquisition opportunities.

SUBSEQUENT EVENTS

Blackmores Joint Arrangement

During the period Bega Cheese Limited and Blackmores Limited entered into a Partnership Deed relating to the formation of the Bemore joint arrangement between the two companies to produce, supply, market and sell life stage dairy based nutritional powders that came into existence as at 6 January 2016. The Bemore joint arrangement was launched on 16 January 2016.

Coles Retailer's Own Brand Cheese business

On 1 February 2016 Bega Cheese advised the market that Coles Supermarkets provided notice of its intention to change suppliers for its "own brand" cheddar and processed cheese manufacturing and packaging from January 2017. The change in the supply arrangement will see the Group redirect the related milk supply and production capacity to other value added dairy products and increase focus on its infant formula and nutritional platform.

Dividend

On 24 February 2016, the Directors declared an interim fully franked dividend of 4.5 cents per share, which represents a distribution of \$6.9 million. An interim dividend of 4.0 cents per share was paid in respect of 1H FY2015.

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under *Section 307C* of the *Corporations Act 2001* is set out on page 13.

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.

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



Barry Irvin
Executive Chairman
Melbourne



Raelene Murphy
Independent Director
Melbourne

24 February 2016



Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Bega Cheese Limited for the half-year ended 27 December 2015, 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', written over a horizontal line.

SJ Bourke
Partner
PricewaterhouseCoopers
Sydney
24 February 2016

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Notes	CONSOLIDATED	
		27 December 2015 \$'000	28 December 2014 \$'000
Revenue		561,373	552,500
Cost of sales	8	(484,522)	(492,889)
Gross profit		76,851	59,611
Other revenue		3,052	3,315
Other income		588	1,316
Distribution expense	8	(24,841)	(22,971)
Marketing expense	8	(4,655)	(4,856)
Occupancy expense		(1,788)	(1,599)
Administration expense	8	(27,792)	(25,437)
Finance costs		(2,037)	(1,637)
Share of net profit of joint venture		366	151
Profit before income tax		19,744	7,893
Income tax expense		(5,245)	(1,839)
Profit for the period		14,499	6,054
Other comprehensive income / (expense):			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges and other items		507	(2,667)
Total other comprehensive income (expense)		507	(2,667)
Total comprehensive income for the period		15,006	3,387
Profit attributable to owners of Bega Cheese Limited		14,499	6,054
Total comprehensive income for the period attributable to owners of Bega Cheese Limited		15,006	3,387
		2016	2015
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:			
Basic earnings per share		9.5	4.0
Diluted earnings per share		9.5	4.0

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

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet

		CONSOLIDATED		
		27 December	30 June	28 December
		2015	2015	2014
		\$'000	\$'000	\$'000
ASSETS				
Current assets				
		17,323	10,284	30,705
		122,874	119,508	131,045
	6	540	967	21
		206,545	194,889	203,659
		-	2,941	-
		347,282	328,589	365,430
Non-current assets				
		214,655	209,706	208,218
		11,699	11,230	12,617
		2,035	1,797	1,487
	6	729	-	-
		1,463	1,097	1,041
		230,581	223,830	223,363
		577,863	552,419	588,793
LIABILITIES				
Current liabilities				
		128,922	139,081	134,750
	6	1,306	993	7,038
	4	350	11,474	601
		2,898	1,186	22,143
		29,774	26,553	25,589
		163,250	179,287	190,121
Non-current liabilities				
	4	92,000	57,500	85,000
		1,808	2,966	2,808
		93,808	60,466	87,808
		257,058	239,753	277,929
		320,805	312,666	310,864
EQUITY				
	5a	103,942	103,942	103,942
		21,438	20,931	19,379
		195,425	187,793	187,543
		320,805	312,666	310,864
		320,805	312,666	310,864

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes. The Balance Sheet as at 28 December 2014 has been included to better reflect the impact of seasonality of the business on the financial position at the half-year.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity

	Share capital	Share-based payment reserve	Capital profits reserve	Hedging reserve	Fair value reserve	Transactions with non-controlling interests	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated								
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 (expense) for the period	-	-	-	(2,667)	-	-	-	(2,667)
Transactions with owners in their capacity as owners								
- Share-based payments relating to incentives	-	(44)	-	-	-	-	-	(44)
- Issue of shares relating to incentives (note 5)	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
Balance as at 1 July 2015	103,942	94	33,959	(555)	-	(12,567)	187,793	312,666
Profit for the period	-	-	-	-	-	-	14,499	14,499
Other comprehensive income (expense) for the period	-	-	-	691	(184)	-	-	507
Transactions with owners in their capacity as owners								
- Dividends provided for or paid	-	-	-	-	-	-	(6,867)	(6,867)
Balance as at 27 December 2015	103,942	94	33,959	136	(184)	(12,567)	195,425	320,805

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	
		27 December	28 December
		2015	2014
		\$'000	\$'000
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		582,708	548,997
Payments to suppliers and employees inclusive of goods and services tax		(572,748)	(576,776)
Payments under the Milk Sustainability and Growth Program	1a	(488)	(18,614)
Interest and other costs of financing paid		(1,990)	(1,459)
Income taxes paid		(1,276)	(2,686)
Net cash inflow/(outflow) from operating activities		6,206	(50,538)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		103	158
Payments for property, plant and equipment		(14,842)	(6,019)
Payments for other financial assets		(992)	-
Proceeds from sale of property, plant and equipment		55	79
Joint venture partnership distributions received		-	250
Net cash (outflow) from investing activities		(15,676)	(5,532)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		23,376	65,012
Dividends paid to members		(6,867)	(6,867)
Net cash inflow from financing activities		16,509	58,145
Net increase in cash and cash equivalents		7,039	2,075
Cash and cash equivalents at the beginning of the period		10,284	28,630
Cash and cash equivalents at the end of the period		17,323	30,705

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 \$25.0 million 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 Board resolved to close the Program to new applications on 4 February 2015 following allocation of the funds to supplier farmers. In total, \$24.8 million has been paid out under the program from March 2014 to 27 December 2015. Amounts included in the financial statements as an expense are recognised on the basis of constructive obligations and are as follows:

	CONSOLIDATED	
	27 December 2015 \$'000	28 December 2014 \$'000
Impact on cost of sales and EBITDA	(488)	(10,642)
Impact on income tax expense	146	3,193
Impact on profit for the period	(342)	(7,449)
Impact on cash flows for the period before tax	(488)	(18,614)

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. These payments are included as an outflow from operating activities in the Consolidated Statement of Cash Flows.

2. SEASONAL FACTORS

The Consolidated Statement of Comprehensive Income for the half-year ended 27 December 2015 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 nutritionals.

b) Segment information provided to the Board of Directors

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
	\$'000	\$'000	\$'000	\$'000
Period ending 27 December 2015				
Revenue	366,828	211,596	(17,051)	561,373
EBITDA	19,110	13,261	-	32,371
Depreciation, amortisation and impairment	(5,794)	(4,907)	-	(10,701)
EBIT	13,316	8,354	-	21,670
Interest revenue	41	70	-	111
Interest expense	(1,093)	(944)	-	(2,037)
Profit before income tax	12,264	7,480	-	19,744
Income tax expense	(3,334)	(1,911)	-	(5,245)
Profit for the period	8,930	5,569	-	14,499
Impact of current period events on EBITDA (note 1)				
Milk Sustainability and Growth Program before tax	(596)	108	-	(488)
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 before tax	(4,107)	(6,535)	-	(10,642)
Total segment assets and liabilities				
Total segment assets 27 December 2015	406,348	251,593	(78,595)	579,346
Total segment assets 30 June 2015	387,208	245,452	(80,241)	552,419
Total segment assets 28 December 2014	427,950	259,490	(98,647)	588,793
Total segment liabilities 27 December 2015	160,715	99,561	(1,735)	258,541
Total segment liabilities 30 June 2015	143,454	99,680	(3,381)	239,753
Total segment liabilities 28 December 2014	181,517	118,199	(21,787)	277,929
Purchases of property, plant and equipment				
Purchases to 27 December 2015	10,495	5,638	-	16,133
Purchases to 28 December 2014	2,410	3,609	-	6,019

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 assesses the underlying 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 FY2016 the Group revised its borrowing facilities to provide additional headspace for higher demand in working capital requirements and increased spend on a number of capital projects. The Group has secured \$193.0 million in available facilities as at 27 December 2015 including a short term seasonal working capital facility.

The increased facility limits available under the Revolving Cash Advance Facility and the Inventory Facility are shown in the table below:

	CONSOLIDATED		
	27 December 2015 \$'000	30 June 2015 \$'000	28 December 2014 \$'000
Undrawn facilities expiring within one year	-	71,526	-
Undrawn facilities expiring beyond one year	100,650	13,500	68,399
Drawn facilities	92,350	68,974	85,601
Total facilities	193,000	154,000	154,000
Total facilities are represented by:			
Syndicated Facility - 3 year Revolving Cash Advance Facility	70,000	70,000	70,000
Syndicated Facility - 5 year Revolving Cash Advance Facility	10,000	1,000	1,000
Syndicated Facility - Seasonal Revolving Cash Advance Facility	30,000	-	-
Inventory Facility	75,000	75,000	75,000
Overdraft Facility	6,500	6,500	6,500
Vat Financing Facility	1,500	1,500	1,500
Total facilities	193,000	154,000	154,000

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

- The interest cover ratio must be equal or greater than 2.5 times;
- The leverage ratio must not be greater than 3 times; and
- Shareholder funds must be equal or greater than \$200,000,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. SHARE CAPITAL

a) Share capital

	CONSOLIDATED		
	27 December	30 June	28 December
	2015	2015	2014
	\$'000	\$'000	\$'000
Ordinary shares fully paid	103,942	103,942	103,942

b) Movement in number of shares and share capital value

	Ordinary Shares Number '000	Ordinary Shares \$'000
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 and 30 June 2015	152,603	103,942
Ordinary shares on issue at 1 July 2015	152,603	103,942
Movements	-	-
Ordinary shares on issue at 27 December 2015	152,603	103,942

6. FINANCIAL RISK MANAGEMENT

Fair Value Estimation

The fair value of financial instruments traded in active markets are based on quoted market prices at the reporting date. Refer to the 2015 Annual Report for details on the basis of AASB 7 *Financial Instruments* disclosure of fair value measurements. The following table presents the Group's assets and liabilities measured and recognised at fair value at the end of the reporting periods:

	Level 1 \$'000	Level 2 \$'000	Total \$'000
Consolidated			
Period ending 27 December 2015			
Assets			
Derivatives used for hedging	-	540	540
Financial assets at fair value through equity	729	-	729
Total assets	729	540	1,269
Liabilities			
Derivatives used for hedging	-	(1,306)	(1,306)
Total liabilities	-	(1,306)	(1,306)
Period ending 30 June 2015			
Assets			
Derivatives used for hedging	-	967	967
Total assets	-	967	967
Liabilities			
Derivatives used for hedging	-	(993)	(993)
Total liabilities	-	(993)	(993)
Period ending 28 December 2014			
Assets			
Derivatives used for hedging	-	21	21
Total assets	-	21	21
Liabilities			
Derivatives used for hedging	-	(7,038)	(7,038)
Total liabilities	-	(7,038)	(7,038)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. SUBSEQUENT EVENTS

a) Blackmores Joint Arrangement

During the period Bega Cheese Limited and Blackmores Limited entered into a Partnership Deed relating to the formation of the Bemore joint arrangement being a joint arrangement between the two companies to produce, supply, market and sell life stage dairy based nutritional powders that came into existence as at 6 January 2016. The Bemore joint arrangement was launched on 16 January 2016.

b) Coles Retailer's Own Brand Cheese business

On 1 February 2016 Bega Cheese advised the market that Coles Supermarkets provided notice of its intention to change suppliers for its "own brand" cheese manufacturing and packaging from January 2017. The change in the supply arrangement will see the Group redirect the related milk supply and production capacity to other value added dairy products and increase focus on its infant formula and nutritional platform.

c) Dividend

On 24 February 2016, the Directors declared an interim fully franked dividend of 4.5 cents per share, which represents a distribution of \$6.9 million. An interim dividend of 4.0 cents per share was paid in respect of 1H FY2015.

8. RECLASSIFICATION OF ITEMS IN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The classification of certain items was revised to improve reporting of distribution, marketing and administration expenses, resulting in a number of reclassifications in order to present information in a more relevant way. There was no impact on profit or net assets from these reclassifications. Presentation of the affected financial statement line items for the prior period have been restated as summarised below.

	CONSOLIDATED			
	28 December 2014 As reported \$'000	Restatement Bega Cheese \$'000	Restatement Tatura Milk \$'000	28 December 2014 Restated \$'000
Cost of sales	(496,182)	2,422	871	(492,889)
Distribution expense	(21,522)	(71)	(1,378)	(22,971)
Marketing expense	(3,299)	(375)	(1,182)	(4,856)
Administration expense	(25,150)	(1,976)	1,689	(25,437)
Profit before income tax	7,893	-	-	7,893

9. BASIS OF PREPARATION

This consolidated interim financial report for the half-year reporting period ended 27 December 2015 (corresponding prior period being 28 December 2014) 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 2015 and any public announcements made by Bega Cheese Limited 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.

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.

DIRECTORS' DECLARATION

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 14 to 22 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standard AASB 134 *Interim Financial Reporting*, 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 27 December 2015 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



Raelene Murphy
Independent Director
Melbourne

24 February 2016



INDEPENDENT AUDITOR'S REVIEW REPORT

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 27 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 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 Standard 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 half-year 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 27 December 2015 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*.

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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 27 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that appears to be 'SJ Bourke'.

SJ Bourke
Partner
PricewaterhouseCoopers
Sydney

24 February 2016