



ASX ANNOUNCEMENT

Market Update

Bega Cheese is currently preparing its half year report and expects to be in a position to release the report on 21 February 2013. In conjunction with the release of the half year report, the company will arrange an investor conference call on the same day, to discuss the report. A separate announcement will be made shortly detailing the conference call arrangements.

The following provides a preliminary update on recent operational and strategic events, which collectively illustrate the ongoing development of key relationships and core strategic platforms by Bega Cheese Limited and the wholly owned subsidiary Tatura Milk Industries ("Bega Cheese Group").

Mead Johnson

Bega Cheese Group has modified the arrangements that it has had with Mead Johnson since 2008 for the production of nutritional powders on Tatura's MSD2 spray drier. Under the original arrangements, Tatura had limited rights to use MSD2 for its own production purposes up until 2012 when MSD2 was to be used solely for the production of Mead Johnson nutritional powder products.

The modified arrangements allow the Bega Cheese Group to use MSD2 for its own production purposes for 25% of each year from 1 January 2013, with the balance of each year being reserved for Mead Johnson products. This revised arrangement will result in Mead Johnson paying fees on a pro rata basis for the production of its products and will give the Bega Cheese Group more flexibility and the capacity to produce other nutritional and milk powder products on MSD2. The new arrangements are documented in an agreement between Tatura Milk Industries and Mead Johnson Nutrition (Asia Pacific) Pte Limited.

The Bega Cheese Group's nutritional powders business continues to grow and its access to the MSD2 drier will enable it to produce approximately 5,000 tonnes of additional nutritional and milk powder products each year.

Ingredia

Since 2004 Tatura Milk Industries has had in place arrangements with Ingredia S.A. ("**Ingredia**") under which Tatura Milk Industries produces and supplies milk protein concentrate to Ingredia. In anticipation of the expiry of the original agreements in 2013, a new agreement has been entered into under which the Bega Cheese Group will continue to manufacture and supply milk protein concentrate products to Ingredia for a minimum five year term.

The Bega Cheese Group retains the right to sell all types of milk protein concentrate products throughout Australia and New Zealand. Ingredia will be the exclusive purchaser of milk protein concentrate products for sale in all other markets, subject to the right of the Bega Cheese Group to sell milk protein concentrate products with a protein content of 70% or below in those markets.

Manufacturing Plan

The Board has completed a review of the manufacturing infrastructure of the Bega Cheese Group and approved Stage 1 of a manufacturing activity plan which includes a further \$2.0 million investment in cheddar cheese manufacturing capacity to support growing demand from Coles and a \$8.0 million expenditure on further value adding of milk proteins.

**Tatura Site**

The Bega Cheese Group has been working with several Victorian State Government Agencies and Departments as well as the Greater Shepparton City Council to purchase two blocks of State Government land and obtain planning approval for the expansion of the manufacturing infrastructure at Tatura. The purchase of land ensures that the Bega Cheese Groups manufacturing capacities and capabilities at Tatura will not be limited by the constraints of its existing site and will be able to expand as demand particularly from Asia to the Middle East continues to grow.

Banking

Bega Cheese has established a syndicated debt facility with Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Australia Branch) being a member of the Rabobank Group ("Rabobank") and Westpac Banking Corporation to service the immediate requirements of the Group.

Bega Cheese was pleased to refine its banking arrangements with its two long term financiers. Rabobank had traditionally met Bega Cheese's funding requirements and Westpac had held a long and successful relationship with Tatura Milk Industries. The successful merger of Bega Cheese and Tatura Milk Industries has resulted in a syndicated facility being established which provides more flexibilities and options for the business.

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For further information please contact:

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