



BEGA CHEESE LIMITED
2011 Interim Report

26 December 2010

Directors' Report

Your Directors present their report on the Consolidated Entity consisting of Bega Cheese Limited ("Bega Cheese") and the entities it controlled at the end of or during the half-year ended 26 December 2010.

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
Dairy farmer
Director since September, 1989

Maxwell Roberts

Deputy Chairman
Dairy farmer
Director since September, 1983

Richard Parbery

Deputy Chairman
Dairy farmer and accountant
Director since September, 1988

Thomas D'Arcy

Dairy Farmer
Director since April, 1998

Richard Platts

Dairy Farmer
Director since November, 2000

Review of Operations

The principal activity of Bega Cheese during the half-year ending 26 December 2010 was receiving, processing, manufacturing and distributing dairy and associated products.

In November 2010, Bega Cheese entered into an agreement to acquire a 15% share in Warrnambool Cheese and Butter Factory Company Holdings Ltd.

Result for the Period

	Consolidated	
	26 December 2010 \$'000	27 December 2009 \$'000
Profit attributable to shareholders before regional milk price premium and income tax expense	18,002	14,338

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 3.

Rounding of Amounts

The Group is of a kind referred to 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' and Financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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



Barry Irvin
Executive Chairman



Richard Parbery
Deputy Chairman
Bega
2 March 2011



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Auditor's Independence Declaration

As lead auditor for the audit of Bega Cheese Limited for the half-year ended 26 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A stylized, handwritten signature of 'PricewaterhouseCoopers' in dark ink.

PricewaterhouseCoopers

A stylized, handwritten signature of 'P J Carney' in dark ink.

P J Carney
Partner

Bega
2 March 2011



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Independent Auditor's Report To The Shareholders of Bega Cheese Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bega Cheese Limited, which comprises the balance sheet as at 26 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and 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 both Bega Cheese Limited (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 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 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 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 26 December 2010 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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. While we considered the effectiveness of

management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

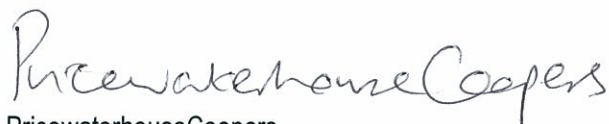
Independence

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

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 financials position at 26 December 2010 and of its performance for the half-year ended on that date, and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



P J Carney
Partner

Bega
2 March 2011

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 7 to 12 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 26 December 2010 and of its performance for the half- year ended on that date; and
- b. there are reasonable grounds to believe that the Company 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



Richard Parbery
Deputy Chairman

Bega
2 March 2011

Consolidated Statement of Comprehensive Income

	Consolidated Half-Year	
	26 December 2010 \$'000	27 December 2009 \$'000
Revenue from continuing operations	511,461	392,134
Cost of sales	(456,498)	(344,564)
Gross profit	54,963	47,570
Other income	3,390	3,080
Distribution expense	(13,857)	(11,427)
Marketing expense	(5,650)	(4,567)
Occupancy expense	(838)	(585)
Administration expense	(15,053)	(14,945)
Finance costs	(4,953)	(4,788)
Profit before regional milk price premium	18,002	14,338
Regional milk price premium	(3,841)	(3,917)
Profit before income tax	14,161	10,421
Income tax (expense)	(1,103)	(589)
Profit for the half-year	13,058	9,832
Profit is attributable to:		
Equity holders of Bega Cheese Limited	10,267	7,519
Non-controlling interests	2,791	2,313
	13,058	9,832
Other comprehensive income		
Cash flow hedges	6,492	(1,758)
Held to maturity financial assets	3,701	-
Total other comprehensive income	10,193	(1,758)
Total comprehensive income for the half-year	23,251	8,074
Total comprehensive income for the half-year is attributable to:		
Equity holders of Bega Cheese Limited	18,629	6,288
Non-controlling interests	4,622	1,786
	23,251	8,074

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

Consolidated Balance Sheet

		Consolidated Half-Year	
		26 December 2010 \$'000	30 June 2010 \$'000
	Notes		
Assets			
Current assets			
Cash and cash equivalents		11,329	18,169
Trade and other receivables		114,877	89,580
Other financial assets		7,497	819
Inventories		116,100	122,531
Non-current assets classified as held for sale		-	27
Total current assets		249,803	231,126
Non-current assets			
Other financial assets	3	27,654	199
Property, plant and equipment		194,804	193,796
Deferred tax assets		13,427	17,212
Intangible assets		1,787	2,170
Total non-current assets		237,672	213,377
Total assets		487,475	444,503
Liabilities			
Current liabilities			
Trade and other payables		121,218	112,465
Borrowings		50,983	63,953
Current tax liabilities		2,899	2,717
Provisions		17,790	16,253
Total current liabilities		192,890	195,388
Non-current liabilities			
Trade and other payables		206	704
Borrowings		99,684	68,659
Provisions		1,745	2,136
Total non-current liabilities		101,635	71,499
Total liabilities		294,525	266,887
Net assets		192,950	177,616
Equity			
Contributed equity		27,167	27,163
Reserves		40,269	31,907
Retained earnings		101,256	92,888
Capital and reserves attributable to owners of Bega Cheese Limited		168,692	151,958
Non-controlling interests		24,258	25,658
Total equity		192,950	177,616

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

Consolidated Statement of Changes in Equity

	Contributed equity \$'000	Capital profits reserves \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Retained reserve \$'000	Non- controlling interests \$'000	Total \$'000
Consolidated							
Balance as at 1 July 2009	24,810	33,891	330	-	76,402	31,516	166,949
Total comprehensive income for the year	-	-	(1,758)	-	9,832	-	8,074
Transactions with owners in their capacity as owners							
Contributions of equity	162	-	-	-	-	(997)	(835)
Dividends provided for or paid	-	-	-	-	(1,737)	-	(1,737)
Dividends and other payments made to non-controlling interests	-	-	-	-	-	(6,274)	(6,274)
Share of comprehensive income due to non-controlling interests	-	-	527	-	(2,313)	1,786	-
Balance as at 27 December 2009	24,972	33,891	(901)	-	82,184	26,031	166,177
Balance as at 1 July 2010	27,163	33,959	(2,052)	-	92,888	25,658	177,616
Total comprehensive income for the year	-	-	6,492	3,701	13,058	-	23,251
Transactions with owners in their capacity as owners							
Contributions of equity	4	-	-	-	-	(94)	(90)
Dividends provided for or paid	-	-	-	-	(1,899)	-	(1,899)
Dividends and other payments made to non-controlling interests	-	-	-	-	-	(5,928)	(5,928)
Share of comprehensive income due to non-controlling interests	-	-	(1,831)	-	(2,791)	4,622	-
Balance as at 26 December 2010	27,167	33,959	2,609	3,701	101,256	24,258	192,950

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

Consolidated Statement of Cash Flows

	Consolidated Half-Year	
	26 December 2010 \$'000	27 December 2009 \$'000
Cash flows from operating activities		
Receipts from customers inclusive of goods and services tax	467,605	404,701
Payments to suppliers and employees inclusive of goods and services tax	(442,167)	(369,397)
Regional milk price premium paid	(3,841)	(3,917)
Interest and other costs of financing paid	(3,862)	(4,617)
Income taxes paid	(1,459)	(273)
Net cash inflow from operating activities	16,276	26,497
Cash flows from investing activities		
Interest received	261	160
Payments for property, plant and equipment	(11,326)	(7,065)
Payments for shares in listed companies	(22,166)	-
Proceeds from sale of property, plant and equipment	31	673
Proceeds from sale of shares in listed companies	-	112
Net cash (outflow) from investing activities	(33,200)	(6,120)
Cash flows from financing activities		
Proceeds from/(repayment of) borrowings	18,883	(32,195)
Repayment of leases	(880)	(494)
Loans repaid made to non-controlling interests	(5,521)	(1,057)
Share capital subscribed by members	4	162
Share capital purchased back from non-controlling interests	(94)	(997)
Dividends paid to members	(1,899)	(1,737)
Dividends paid to non-controlling interests	(409)	(1,000)
Net cash inflow/(outflow) from financing activities	10,084	(37,318)
Net (decrease) in cash and cash equivalents	(6,840)	(16,941)
Cash and cash equivalents at the beginning of the half-year	18,169	21,963
Cash and cash equivalents at the end of the half-year	11,329	5,022

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

Notes to the Financial Statements

1. Basis of Preparation of Half-Year Report

This general purpose interim financial report for the half-year reporting period ended 26 December 2010 (corresponding prior period being 27 December 2009) has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This 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 2010 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.

a. Impact of Standards Issued But Not Yet Applied by the Entity

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The Group intends to apply the revised standard from 1 July 2013 and is yet to assess its full impact.

2. Seasonal factors

The Consolidated Statement of Comprehensive Income for the half-year ended 26 December 2010 is not expected to reflect the proportional full year result of Bega Cheese Limited due to seasonal factors.

3. Non-Current Assets – Other Financial Assets

	26 December 2010 \$'000	30 June 2010 \$'000
Fair valued through profit and loss		
Listed equity securities	140	140
Unlisted equity securities	59	59
Fair valued through equity		
Listed equity securities	27,455	-
	27,654	199

In November 2010, Bega Cheese entered into a placement agreement and participated in a rights issue that resulted in it acquiring a 15% interest in Warrnambool Cheese and Butter Factory Company Holdings Ltd (WCB). Bega Cheese's Executive Chairman, Mr Barry Irvin joined the WCB Board at the same time as the investment.

4. Non-Current Borrowings

In December 2010, Bega Cheese renegotiated its Working Capital Facility to finance the acquisition of shares in Warrnambool Cheese and Butter Factory Company Holdings Ltd. The Working Capital Facility of \$60.0m is now renewable on 30 January 2012. At June 2010, the Working Capital Facility totalled \$50.0m and was due for renewal on 30 June 2011. Group facilities are as follows:

	26 December 2010 \$'000	30 June 2010 \$'000
Financing facilities		
Amount used	149,450	130,568
Amount unused	54,750	71,827
Total	204,200	202,395

5. Dividends

	Consolidated Half-Year	
	26 December 2010 \$'000	30 June 2009 \$'000
Ordinary shares		
Dividends paid during the half year	1,899	1,737