



ASX ANNOUNCEMENT

Appendix 4D and Half Year Accounts 2012

I have pleasure in enclosing the Appendix 4D in relation to the Half Year ended 25 December 2011 together with the 2012 Interim Report for the Half Year ended 25 December 2011.

A handwritten signature in black ink that reads "B. G. Kelly". The signature is fluid and cursive, with a long horizontal stroke at the end.

Brett Kelly
Company Secretary

23 February 2012

For further information please contact

Brett Kelly
Company Secretary
Bega Cheese Limited

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Bega Cheese Limited

ASX Half Year Information - 25 December 2011

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2011 Annual Report

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Results for Announcement to the Market

Appendix 4D Item	Percentage		Amount \$'000	
Revenue from ordinary activities	Down	-7%	to	\$448,206
Profit / (Loss) from ordinary activities after tax attributable to members	Up	8%	to	\$11,089
Net Profit for the period attributable to members	Up	8%	to	\$11,089

Net Tangible Assets Backing	25 December 2011	26 December 2010
Net tangible asset backing per share	\$1.52	\$6.54

Dividends / Distributions	Amount per Security	Franked Amount per Security
Interim Dividend (Prior Year)	Nil	Nil
Final Dividend (Prior Year)	1.25 cents	1.25 cents
Interim Dividend Declared 23 February 2012 (Current Year)	3.00 cents	3.00 cents

Record Date for Determining Entitlements	Date
Interim Dividend	4pm, 5 March 2012

Explanation of Revenue

The decrease in revenue was largely the result of a decrease in volume of retail and food service cheese products. This reflects a softening in demand from Bega Cheese's contract customers.

Explanation of Profit / (Loss) from Ordinary Activities after Tax

Higher milk intake volumes and a change in product mix enabled profit after tax to increase. During the period, dairy solids were directed to higher margin products and less to commodity dairy products.

Explanation of Net Tangible Assets Backing

The December 2010 net tangible assets backing of \$6.54 per share is based on the pre share split number of shares on issue at that date. If the net tangible assets backing is calculated across the number of shares at December 2010 diluted in proportion to the share split, the ratio would have been in the order of \$1.64 per share.

Explanation of Dividends

No interim dividend was paid in the prior year with the final dividend being paid in June 2011.

Dividend Reinvestment Plan

Eligible Shareholders may elect to have all or part of their shareholding participate in the Dividend Reinvestment Plan (DRP). Shares will be allotted at a price equal to the average of the daily volume weighted average market price of all Bega Cheese shares sold on the Australian Securities Exchange during the five days up to and including the Record Date for payment of the dividend. The Directors have determined that new shares will be issued to the participants of the DRP and there is no limit to the number of shares that may be issued to a single participant.

Last date for receipt of an election notice: 28 February 2012.



Bega Cheese Limited

**Consolidated Condensed 2012 Interim Report for the
Half Year Ended 25 December 2011**

ABN 81 008 358 503

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Directors' Report

Your Directors present their report on the consolidated entity ("Bega Cheese Group" or "Group") consisting of Bega Cheese Limited ("Bega Cheese") and the entities it controlled at the end of or during the half year ended 25 December 2011.

Directors

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

Barry Irvin

Executive Chairman
Supplier Director
Director since September, 1989

Max Roberts

Supplier Director
Director since September, 1983

Richard Parbery

Supplier Director
Director since September, 1988

Tom D'Arcy

Supplier Director
Director since April, 1998

Resigned from being a Director on 23 December, 2011

Richard Platts

Supplier Director
Director since November, 2000

Peter Margin

Chair of Nomination & Human Resources Committee
Independent Director
Director since 27 June, 2011

Joy Linton

Chair of Audit & Risk Committee
Independent Director
Appointed a Director on 24 October, 2011

Rick Cross

Supplier Director
Appointed a Director on 23 December, 2011

Jeff Odgers

Supplier Director
Appointed a Director on 23 December, 2011

Review of Operations

The principal activity of the Bega Cheese Group during the half year ended 25 December 2011 was receiving, processing, manufacturing and distributing dairy and associated products.

Performance Highlights

- Bega Cheese listed on the ASX.
- Bega Cheese completed the merger with Tatura Milk Industries Limited issuing 24 million new Bega Cheese shares and welcoming 318 new shareholders.
- Bega Cheese entered into a five year alliance with Coles Supermarkets Australia Pty Ltd to provide 19,000 tonnes per annum of Coles branded cheese.
- Increased inventory and working capital requirements accommodated with new financing facilities.
- Profit before tax up 31% on the prior period to \$18.6 million from \$14.2 million.
- Earnings per share of 9.11 cents, a decrease of 4% from 9.45 cents in the prior period, reflecting the issue of 16% of new share capital.
- Fully franked interim dividend of 3.00 cents per share declared 23 February 2012 and payable 27 March 2012.

Key Events

Issue of Prospectus and Listing on the ASX

During the period Bega Cheese finalised the transition to a public listed company, with key highlights as follows:

- On 18 July 2011 Bega Cheese adopted a new Constitution and issued a prospectus inviting the public to subscribe for shares.
- 17.5 million shares were issued to the public at \$2.00 per share. A further 0.5 million shares were issued to Bega Cheese staff for no consideration.
- Following the issues of shares under the prospectus, Bega Cheese had 126.7 million shares on issue.
- The gross proceeds of the public issue of shares were \$35.0 million, which were received in August 2011.
- Bega Cheese listed on the ASX on 19 August 2011, with its ordinary shares tradable from that date.

During the period to 25 December 2011 \$1.8 million was incurred as one-off costs bringing the total costs to \$3.5 million. In completing the listing, \$0.9 million was expensed and \$2.6 million was attributed to the new capital raising and taken to equity.

The listing has resulted in an increased focus on corporate governance and the introduction of Independent Directors.

Merger with Tatura Milk Industries Limited and Issue of Equity

During the period under review Bega Cheese secured 100% ownership of Tatura Milk Industries Limited (Tatura Milk) by way of a merger under a scheme of arrangement. As a result of the merger Bega Cheese issued 24.0 million ordinary shares on 23 December 2011 as consideration for the Tatura Milk redeemable preference shares. For further details refer to Note 8 of the Financial Statements.

Supply of Private Label Cheese to Coles Supermarkets Australia Pty Ltd

On 6 September 2011 Coles Supermarkets Australia Pty Ltd (Coles) and Bega Cheese announced their intention to form an alliance under which Bega Cheese will supply Coles branded cheese requirements for five years. The key elements of the alliance are as follows:

- Bega Cheese commenced supply to Coles in January 2012, under a phased transition from the previous supplier.
- Bega Cheese will ultimately be the sole supplier of Coles branded cheddar cheese, mozzarella cheese and processed cheese in Australia.
- Cheese supplied to Coles will be Australian made, using milk sourced from Australian farmers.
- Bega Cheese has built inventory to service the new Coles supply arrangements contributing to a higher comparative inventory position and net operating cash outflow in the reporting period.

Operational Review

Overview

The first half of the 2012 financial year will always be recognised as one of the most significant in Bega Cheese's history. The listing on the ASX and the successful merger with Tatura Milk has resulted in Bega Cheese being the largest listed dairy company in Australia with financial strength and business capacities and capabilities positioning it well for further growth in the Australian and international market place.

Whilst strategic activities demanded a significant amount of time and resource, Bega cheese has continued to focus on core business activities. The new supply arrangement with Coles will see a significant absorption of capacities at both the Coburg and Strathmerton facilities improving the overall efficiency and financial performance of these assets.

The business remains focused on safety, quality and financial performance with strategic investment being directed towards key growth platforms such as cream cheese. The recent announcement that Bega Cheese has invested a further \$7.8 million in the expansion of cream cheese capacities from 15,000 to 22,000 tonnes is reflective of this.

International demand for dairy products remains strong with sales in infant formula, dairy nutritionals and cream cheese continuing to grow particularly in traditional North Asia markets.

Performance

Group consolidated sales revenue totalled \$448.2 million for the period to 25 December 2011, being a decrease of \$33.8 million. The decrease in Group sales was largely the result of a decrease in volume of contract retail and food service cheese products, primarily at the Ridge Street processing and packaging plant. The Group also experienced a change in product mix, with the recent trend of directing dairy solids to higher margin products and less to commodity dairy products.

The Group generated EBITDA of \$32.8 million for the period to 25 December 2011 compared to \$29.1 million in the corresponding prior period, being an increase of 12%. This increase in EBITDA from a lower total sales revenue compared to the prior period saw EBITDA margin to sales increase from 6% to 7%.

The Group generated net profit before tax of \$18.6 million for the period to 25 December 2011 compared to \$14.2 million in the corresponding prior period, being an increase of 31%. This increase in net profit before tax from a lower total sales revenue compared to the prior period saw PBT margin to sales increase from 3% to 4%.

EBITDA, EBIT and PBT margins have improved as a result of changing mix in sales to higher value products and the nature of the Group's contract manufacture arrangements.

The Bega Cheese merger with Tatura Milk impacts the tax status of Tatura Milk, which is no longer a cooperative for tax purposes, therefore increasing the effective rate of tax. This accounts for the increase in tax from \$1.1 million in the prior period to \$4.6 million in the current period. Tatura Milk can offset tax payable against carried forward tax losses included within the deferred tax asset on the balance sheet.

Other comprehensive income due to equity holders decreased by \$12.5 million as the market price of shares in Warrnambool Cheese and Butter Factory Company Holdings Limited decreased and the high Australian dollar impacted the hedge reserve.

Operating Activities

Favourable farming conditions across Bega Cheese's milk collection areas and the addition of new supply have resulted in total milk intake increasing by 16% to 411.1 million litres during the period to 25 December 2011. Relationships with milk suppliers continue to be strong, with the Group paying competitive manufacture milk prices within the milk collection regions it operates.

The increase in total Group milk intake has supported an increase in dairy products manufactured, as well as an increase in milk traded during the Spring seasonal peak. In total, the Group manufactured 99,437 tonnes of dairy products in the period to 25 December 2011.

The Group has continued to invest in capabilities and capacity. During the period the Group spent \$12.2 million in capital expenditure.

Bega Cheese continues to work closely with its major contract pack customers to improve the quality, service delivery and cost to serve. Fonterra Brands (Australia) (FBA) remains a key customer and is still being serviced primarily from the Ridge Street facility. In June 2011 Bega Cheese and FBA entered into a memorandum of understanding, which set the framework under which Bega Cheese Limited would continue to supply FBA natural and processed cheese products. The intent of the memorandum of understanding is to establish a new product supply agreement. As at the date of this report both parties are engaged in constructive and cooperative discussions to establish the new agreement which is expected to be finalised within the next few months.

Other Investments

At 1 July 2011 Bega Cheese held approximately 8.1 million shares in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB). During the period to 25 December 2011 Bega Cheese made further investments in WCB, taking its total shareholding to approximately 9.0 million shares. The value of Bega Cheese's investment in WCB as at 25 December 2011 was approximately \$33.8 million, being a significant premium to historical cost. The group continues to hold a 25% investment in its joint venture Capitol Chilled Foods (Australia). Whilst competition with generic milk brands impacted the result, profit of over \$1.0 million was still generated.

Organisational Structure

The merger of Bega Cheese and Tatura Milk is expected to result in changes to the Group organisational structure. Some of these structural changes were announced prior to the end of the reporting period, including the appointment of a Group General Manager - Operations, and the establishment of a new role Group General Manager - Sales and Marketing, which was filled in January 2012.

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 9.

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 to the nearest thousand dollars in accordance with that Class Order.

Subsequent Events

On 13 February 2012, Bega Cheese signed the letter of Offer of Commodities Stock Acquisition Facility which summarises the terms of a new inventory financing facility of \$50.0 million. The facility is expected to commence in March 2012.

On 23 February 2012, the Directors declared a fully franked interim dividend of 3.00 cents per share.

As part of the merger with Tatura Milk, Bega Cheese has announced its intention to develop an employee share scheme plan to award Tatura Milk employees for staff loyalty by way of a one-off issue of shares for no consideration. As details of the scheme are still to be finalised, no provision has been made in the December 2011 Half Year Accounts. The value of the shares to be issued under the scheme under the current draft arrangements is expected to be approximately \$500,000. It is anticipated that the scheme will be in place by 30 June 2012.

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



Barry Irvin
Executive Chairman



Joy Linton
Chair of Audit & Risk Committee

Melbourne
23 February 2012



Auditor's Independence Declaration

As lead auditor for the review of Bega Cheese Limited for the half year ended 25 December 2011, 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 'P. J. Carney'.

P J Carney
Partner

Sydney
23 February 2012

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Consolidated Statement of Comprehensive Income

		Consolidated	
		25 December 2011	26 December 2010
		\$'000	\$'000
Notes			
		448,206	482,043
	14	(387,662)	(427,264)
		60,544	54,779
		4,761	3,390
		(15,268)	(13,857)
		(4,833)	(5,650)
		(1,104)	(838)
	14	(21,027)	(18,710)
		(4,469)	(4,953)
		18,604	14,161
		(4,620)	(1,103)
		13,984	13,058
		(578)	6,492
		(4,574)	3,701
		(5,152)	10,193
		8,832	23,251
		11,089	10,267
		2,895	2,791
		13,984	13,058
		6,099	18,629
		2,733	4,622
		8,832	23,251
		2011 Cents	2010 Cents
		9.11	9.45
		9.07	9.45

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

Consolidated Balance Sheet

		Consolidated	
		25 December 2011 \$'000	30 June 2011 \$'000
Notes			
Assets			
Current assets			
	Cash and cash equivalents	6,701	20,587
	Trade and other receivables	95,941	83,341
	Other financial assets	1,255	2,489
4	Inventories	152,916	104,595
	Assets held for sale	-	9
	Total current assets	256,813	211,021
Non-current assets			
	Other financial assets	33,898	37,010
	Property, plant and equipment	199,936	197,866
	Deferred tax assets	14,032	14,400
	Intangible assets	1,580	1,788
	Total non-current assets	249,446	251,064
	Total assets	506,259	462,085
Liabilities			
Current liabilities			
	Trade and other payables	112,127	116,802
	Derivative financial instruments	694	962
6	Borrowings	45,632	22,006
	Current tax liabilities	1,943	1,904
	Provisions	19,874	18,872
	Total current liabilities	180,270	160,546
Non-current liabilities			
	Derivative financial instruments	7	148
6	Borrowings	78,700	94,300
	Provisions	1,838	1,616
	Total non-current liabilities	80,545	96,064
	Total liabilities	260,815	256,610
	Net assets	245,444	205,475
Equity			
9	Contributed equity	99,969	27,169
10	Reserves	27,753	46,057
	Retained earnings	117,722	106,633
	Capital and reserves attributable to owners of Bega Cheese Limited	245,444	179,859
8	Non-controlling interests	-	25,616
	Total equity	245,444	205,475

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

Consolidated Statement of Changes in Equity

	Attributable to Equity Holders of Bega Cheese								
	Transactions								Total Equity
	Contributed Equity	Share Based Payment Reserve	Capital Profits Reserve	Hedging Reserve	Fair Value Reserve	controlling Interests Reserve	Retained Earnings	Non-Controlling Interests	
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2010	27,163	-	33,959	(2,052)	-	-	92,888	25,658	177,616
Profit for the period	-	-	-	-	-	-	10,267	2,791	13,058
Other comprehensive income for the period	-	-	-	4,661	3,701	-	-	1,831	10,193
Transactions with owners in their capacity as owners									
Contributions of equity net of transaction costs	4	-	-	-	-	-	-	(94)	(90)
Dividends provided for or paid	-	-	-	-	-	-	(1,899)	-	(1,899)
Transactions with non-controlling interest	-	-	-	-	-	-	-	(5,928)	(5,928)
Balance as at 26 December 2010	27,167	-	33,959	2,609	3,701	-	101,256	24,258	192,950
Balance as at 1 July 2011	27,169	1,090	33,959	534	10,474	-	106,633	25,616	205,475
Profit for the period	-	-	-	-	-	-	11,089	2,895	13,984
Other comprehensive income for the period	-	-	-	(428)	(4,562)	-	-	(162)	(5,152)
Transactions with owners in their capacity as owners									
Contributions of equity net of transaction costs	33,201	-	-	-	-	-	-	-	33,201
Buy-back of shares	-	-	-	-	-	-	-	(58)	(58)
Issue of shares under employee share scheme (Note 10)	1,066	(1,066)	-	-	-	-	-	-	-
Employee share scheme costs	-	319	-	-	-	-	-	-	319
Transactions with non-controlling interest	-	-	-	-	-	-	-	(1,227)	(1,227)
Acquisition of non-controlling interest in Tatura Milk net of transaction costs (Note 8)	38,533	-	-	-	-	(12,567)	-	(27,064)	(1,098)
Balance as at 25 December 2011	99,969	343	33,959	106	5,912	(12,567)	117,722	-	245,444

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

Consolidated Statement of Cash Flows

		Consolidated	
		25 December 2011 \$'000	26 December 2010 \$'000
Notes			
Cash flows from operating activities			
	Receipts from customers inclusive of goods and services tax	455,604	438,478
	Payments to suppliers and employees inclusive of goods and services tax	(490,170)	(416,590)
	Interest and other costs of financing paid	(2,696)	(3,862)
	Income taxes paid	(1,031)	(1,459)
13	Net cash (outflow)/inflow from operating activities	(38,293)	16,567
Cash flows from investing activities			
	Interest received	307	261
	Payments for property, plant and equipment	(12,152)	(11,326)
	Payments for shares in listed companies	(2,564)	(22,166)
	Proceeds from sale of property, plant and equipment	9	31
	Proceeds from sale of shares in unlisted companies	48	-
	Net cash (outflow) from investing activities	(14,352)	(33,200)
Cash flows from financing activities			
	Proceeds from borrowings	8,482	18,883
	Repayment of leases	(455)	(880)
	Loans made to non-controlling interests	-	(5,521)
	Share capital subscribed by members	35,000	4
	Expenses incurred in capital raising	(2,982)	(291)
	Share capital purchased back from non-controlling interests	-	(94)
	Dividends paid to members	-	(1,899)
	Dividends paid to non-controlling interests	(1,286)	(409)
	Net cash inflow from financing activities	38,759	9,793
	Net (decrease) in cash and cash equivalents	(13,886)	(6,840)
	Cash and cash equivalents at the beginning of the period	20,587	18,169
	Cash and cash equivalents at the end of the period	6,701	11,329

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

Notes to the Consolidated Financial Statements

1. Basis of Preparation of Half Year Report

This condensed consolidated interim financial report for the half year reporting period ended 25 December 2011 (corresponding prior period being 26 December 2010) 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 condensed 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 2011 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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- i. AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013 *)

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.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly. The Group intends to apply the revised standard from 1 January 2015 and is yet to assess its full impact.

- ii. Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011 which may affect the accounting treatment of its joint venture in terms of presentation, but not the amounts of the joint venture included in the results and net assets of the Group.

- iii. AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Bega Cheese is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the Group.

- iv. AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements and Interpretation 12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. This standard may impact the Group's accounting treatment for the Capitol Chilled Foods Joint Venture, however a detailed analysis of the new guidance is yet to be completed.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

- v. AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

- vi. AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the group's current disclosures. The group intends to adopt the standards from 1 July 2011.

- vii. AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

- viii. AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

2. Seasonal Factors

The Consolidated Statement of Comprehensive Income for the half year ended 25 December 2011 is not expected to reflect the proportional full year result of Bega Cheese Limited due to seasonal factors.

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 - which manufactures natural cheese, processed cheese, powders and butter and packages cheese products
- ii. Tatura Milk - which manufactures and packages cream cheese, powders and nutritionals.

b. Segment Information Provided to the Board of Directors

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
Period Ending 25 December 2011	\$'000	\$'000	\$'000	\$'000
Revenues from external customers	300,674	154,356	(6,824)	448,206
EBITDA	14,579	17,687	559	32,825
Interest revenue	216	104	-	320
Interest expense	(3,542)	(927)	-	(4,469)
Depreciation and amortisation	(6,402)	(3,670)	-	(10,072)
Profit before tax	4,851	13,194	559	18,604
Income tax expense	(1,076)	(3,544)	-	(4,620)
Profit after tax	3,775	9,650	559	13,984
Total segment assets	392,271	192,527	(78,539)	506,259
Total segment liabilities	182,441	80,051	(1,677)	260,815
Purchases of property, plant and equipment	4,392	7,760	-	12,152
Period Ending 26 December 2010				
Revenues from external customers	336,347	160,405	(14,709)	482,043
EBITDA	15,994	14,332	(1,136)	29,190
Interest revenue	122	104	-	226
Interest expense	(3,343)	(1,610)	-	(4,953)
Depreciation and amortisation	(6,778)	(3,524)	-	(10,302)
Profit before tax	5,995	9,302	(1,136)	14,161
Income tax expense	(1,103)	-	-	(1,103)
Profit after tax	4,892	9,302	(1,136)	13,058
Total segment assets	340,503	162,916	(41,334)	462,085
Total segment liabilities	206,871	87,654	(37,915)	256,610
Purchases of property, plant and equipment	8,118	3,208	-	11,326

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 Statement of Comprehensive Income.

ii. EBITDA

The Board of Directors assess performance of the operating segments based on EBITDA. In the current period, the eliminations relate to merger costs taken to equity. In the prior period, intra-group dividends were adjusted.

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. Inventories

The increase in inventories from \$104,595,000 to \$152,916,000 reflects increased milk intake and higher stocks of raw materials partly due to the manufacture of bulk cheese in order to fulfil the requirements under the agreement to supply cheese products to Coles. Sale of products to Coles commenced subsequent to the end of the reporting period, in January 2012.

5. Income Tax Expense

The tax status of Tatura Milk changed in the current year upon completion of the merger with Bega Cheese. The increase in tax expense is due to a reduction in deductible expenses that Tatura Milk was able to claim whilst it was a cooperative for tax purposes. No current tax liability in respect of this tax is recognised on the balance sheet, as Tatura Milk can offset tax payable against carried forward tax losses included within the deferred tax asset. Largely offsetting this movement, the deferred tax liability on WCB shares decreased due to the movement in share value and new deferred tax assets were established in respect of expenses incurred in the issuance of new shares.

6. Borrowings

The June 2011 Working Capital Facility of \$40,000,000 was due for renewal in January 2012. In November 2011, Bega Cheese renegotiated its Working Capital Facility to finance the working capital requirements related to the Coles alliance and other business and extended it to 31 January 2013. In addition, a further \$40,000,000 of Working Capital Facility was established until 31 March 2012, when it is expected to be replaced by a further facility to be provided by existing lenders to Bega Cheese. Group facilities are as follows:

	Consolidated	
	25 December 2011 \$'000	30 June 2011 \$'000
Financing facilities (excluding leases)		
Amount used	124,048	115,567
Amount unused	75,000	39,017
Total facilities	199,048	154,584
Total financing facilities are represented by:		
Working capital facilities	80,000	40,000
Other facilities	119,048	114,584
Total facilities	199,048	154,584

7. Dividends

An interim dividend of 3.00 cents per share was declared on 23 February 2012, which represents distributions of \$4,522,000. No interim dividend was paid in 2011.

8. Subsidiary

		25 December	30 June
	Country of Incorporation	Class of Shares	2011 Holding %
Tatura Milk Industries Limited	Australia	Ordinary	100
			70

During the period under review Bega Cheese secured 100% ownership of Tatura Milk by way of a merger under a scheme of arrangement in accordance with *Section 412* of the *Corporations Act 2001*. The details of this merger were set out in a scheme booklet dated 17 November 2011, which was issued to the owners of Tatura Milk redeemable preference shares in November 2011. The key issues relating to the merger were as follows:

- Bega Cheese offered to acquire all of the Tatura Milk redeemable preference shares, representing approximately 30% of the total Tatura shares issued.
- At the time of the offer Bega Cheese held all of the ordinary shares of Tatura Milk, being approximately 70% of total Tatura Milk shares issued.
- Consideration for the offer was 2 Bega Cheese ordinary shares for every 1 Tatura Milk redeemable preference share.
- The value of Bega Cheese's offer was \$3.40 per Tatura Milk redeemable preference share, based on the weighted average price of Bega Cheese shares sold on the ASX from the date the merger was announced (4 October 2011) to the day before the date of the scheme booklet (16 November 2011).
- A general meeting and a scheme meeting of the relevant shareholders of Tatura Milk were held on 14 December 2011, at which time the shareholders overwhelmingly voted in favour of the merger.
- The Supreme Court subsequently approved the scheme and implementation of the scheme and the merger were completed on 23 December 2011.

As a result of the merger Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares. During the period to 25 December 2011 \$1,098,000 (2011:\$Nil) were incurred as one-off costs in completing the merger with Tatura Milk, which were treated as a deduction against equity.

9. Contributed Equity**a. Share Capital**

	Consolidated	
	25 December 2011 \$'000	30 June 2011 \$'000
Ordinary shares fully paid	99,969	27,169

In April 2011 the shareholders of Bega Cheese resolved to approve changes to the Constitution. The new Constitution was required to enable Bega Cheese to list on the ASX. On 18 July 2011, all 'A Class' shares and 'B Class' shares were converted to ordinary shares on a one-to-one basis as part of Bega Cheese adopting the new Constitution. Bega Cheese therefore has only one type of share capital.

On 18 July 2011 Bega Cheese issued a prospectus inviting the public and employees of Bega Cheese to subscribe for shares. Under the offer, 17,500,000 shares were issued to the public at an issue price of \$2.00 per share. In addition 533,000 shares were issued to staff of Bega Cheese under the Tax Exempt Plan and the Incremental Plan for no consideration. In total 18,033,000 ordinary shares were issued for consideration totalling \$35,000,000, with the shares being issued and the cash proceeds from the issue of shares being received in August 2011. Bega Cheese incurred costs normally associated with issuing shares and listing on the ASX. At 25 December 2011, expenses of \$3,481,000 had been incurred (30 June 2011:\$2,746,000) of which \$2,569,000 (2011:\$1,044,000) are attributed to the new capital and were written off against the equity raised on listing, net of tax. Bega Cheese formally listed on the ASX on 19 August 2011, with ordinary shares in Bega Cheese being tradable on the ASX from that date.

a. Share Capital (cont.)

On 23 December 2011 Bega Cheese issued 24,019,000 ordinary shares as consideration for the Tatura Milk redeemable preference shares, taking the total ordinary shares in Bega Cheese on issue at 25 December 2011 to 150,729,000. The shares were issued at \$1.65 per share, giving share capital issued of \$39,631,000. During the period to 25 December 2011 \$1,098,000 million after tax was incurred as one-off costs in completing the merger with Tatura Milk, which was treated as a deduction against equity (2011:\$Nil). For further detail on the transaction, see Note 8.

b. Movement in Share Capital Value

	A Class Shares \$'000	B Class Shares \$'000	Ordinary Shares \$'000	Total Shares \$'000
Shares on issue at 1 July 2010	21,495	5,668	-	27,163
Subscribed by shareholders	8	-	-	8
Purchased back from shareholders	(2)	-	-	(2)
Transfers between classes	(767)	767	-	-
Shares on issue at 30 June 2011	20,734	6,435	-	27,169
Shares on issue at 1 July 2011	20,734	6,435	-	27,169
Transfers between classes	(20,734)	(6,435)	27,169	-
Issue of shares on listing	-	-	33,201	33,201
Employee share scheme issues	-	-	1,066	1,066
Issue of shares as consideration on merger with Tatura Milk	-	-	38,533	38,533
Ordinary shares on issue at 25 December 2011	-	-	99,969	99,969

c. Movement in Number of Shares

	A Class Shares Number '000	B Class Shares Number '000	Ordinary Shares Number '000	Total Shares Number '000
Shares on issue at 1 July 2010	21,495	5,668	-	27,163
Subscribed by shareholders	8	-	-	8
Purchased back from shareholders	(2)	-	-	(2)
Transfers between classes	(767)	767	-	-
Share split	62,257	19,251	-	81,508
Shares on issue at 30 June 2011	82,991	25,686	-	108,677
Shares on issue at 1 July 2011	82,991	25,686	-	108,677
Transfers between classes	(82,991)	(25,686)	108,677	-
Issue of shares on listing	-	-	17,500	17,500
Employee share scheme issues	-	-	533	533
Issue of shares as consideration on merger with Tatura Milk	-	-	24,019	24,019
Ordinary shares on issue at 25 December 2011	-	-	150,729	150,729

10. Reserves

	Consolidated	
	25 December 2011 \$'000	30 June 2011 \$'000
Share based payment reserve (see Note 10a)	343	1,090
Capital profits reserve	33,959	33,959
Hedging reserve	106	534
Fair value reserve	5,912	10,474
Transactions with non-controlling interests reserve (see Note 10b)	(12,567)	-
	27,753	46,057

a. Share Based Payment Reserve

In 2011, the Board established two employee share plans: The Tax Exempt Plan and the Incremental Plan. The aim of the plans was to reward staff loyalty by a one-off issue of shares on the listing of Bega Cheese on the ASX. Shares under both schemes were issued for no consideration. The movement on the Reserve is as follows:

	Consolidated	
	25 December 2011 Number	25 December 2011 \$'000
Reserve balance as at 1 July 2011	545	1,090
Shares issued to employees under the Tax Exempt Plan	(250)	(500)
Shares issued to employees under the Loyalty Award	(283)	(566)
Share-based payments relating to Retention Award	159	319
Reserve balance as at 25 December 2011	171	343

b. Transactions with Non-Controlling Interests Reserve

This reserve records the differences arising as a result of the acquisition of the non-controlling interest in Tatura Milk.

11. Subsequent Events

- On 13 February 2012, Bega Cheese signed the letter of Offer of Commodities Stock Acquisition Facility which summarises the terms of a new inventory financing facility of \$50,000,000. The facility is expected to commence in March 2012.
- On 23 February 2012, the Directors declared an interim dividend of 3.00 cents per share.
- As part of the merger with Tatura Milk, Bega Cheese has announced its intention to develop an employee share scheme plan to award Tatura Milk employees for staff loyalty by way of a one-off issue of shares for no consideration. As details of the scheme are still to be finalised, no provision has been made in the December 2011 Half Year Accounts. The value of the shares to be issued under the scheme under the current draft arrangements is expected to be approximately \$500,000. It is anticipated that the scheme will be in place by 30 June 2012.

12. Earnings Per Share

	Consolidated	
	25 December 2011	26 December 2010
	Cents	Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent		
Basic earnings per share	9.11	9.45
Diluted earnings per share	9.07	9.45
	Number	Number
Weighted average of number of shares used as the denominator in calculating basic earnings per share	121,717,723	108,666,141
Adjustments for calculation of diluted earnings per share - Employee share scheme	545,350	-
Weighted average of number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	122,263,073	108,666,141
	\$'000	\$'000
Profit attributable to the ordinary equity holders of the Group used in calculating earnings per share	11,089	10,267

The weighted average number of shares used as the denominator for the half year to December 2010 has been restated as a result of the share split that occurred in April 2011.

13. Notes to the Consolidated Statement of Cash Flows

The reconciliation of profit for the period to net cash flows from operating activities is as follows:

	Consolidated	
	25 December 2011	26 December 2010
	\$'000	\$'000
Profit after income tax	13,984	13,058
Adjustments for Non-cash Items:		
Depreciation of non-current assets	10,072	10,302
Impairment of intangible assets	207	382
Loss on sale of property, plant and equipment	10	4
Interest income received and receivable	(307)	(261)
Change in value of derivatives	(12)	(110)
Interest payable on leases	-	52
Dividend receivable	(889)	-
Non-cash elimination of merger costs	(560)	-
Non-cash employee benefit expenses - share based payments	319	-
Changes in Operating Assets and Liabilities:		
(Increase) / decrease in assets:		
Trade and other debtors and GST recoverable	(11,776)	(22,667)
Inventories	(48,321)	6,431
Prepayments	(1,956)	(2,339)
Increase / (Decrease) in Liabilities:		
Trade creditors	(6,276)	5,712
Accrued expenses and sundry creditors	2,400	5,214
Increase/(decrease) in other tax balances	3,588	(356)
Changes in provisions	1,224	1,145
Net cash flow from operating activities	(38,293)	16,567

14. Reclassification of Expenses

In reviewing costs arising from servicing customers under product supply agreements, it was noted that the classification of these costs had been made incorrectly in the prior period accounts. As a consequence, \$3,657,000 of costs has been reclassified in the prior period from cost of sales into administration costs. The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	26 December 2010	Increase/ (Decrease)	26 December 2010
	As Reported		Restated
	\$'000	\$'000	\$'000
Cost of sales	(430,921)	(3,657)	(427,264)
Gross margin	51,122	(3,657)	54,779
Administrative costs	(15,053)	3,657	(18,710)

Directors Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 10 to 22 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 25 December 2011 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



Joy Linton
Chair of Audit & Risk Committee

Melbourne
23 February 2012



Independent Auditor's Review 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 25 December 2011, and the 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 an Interim 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 25 December 2011 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.

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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 financial position at 25 December 2011 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*.


PricewaterhouseCoopers


P J Carney
Partner

Sydney
23 February 2012