Bega Cheese AGM
Aidan Coleman – Chief Executive Officer
31 October 2012

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Thank you Barry,

Good morning Ladies and Gentlemen…

It is once again a pleasure to deliver this CEO's address to shareholders of Bega Cheese Limited at the second Annual General Meeting as a public company listed on the Australian Securities Exchange.

As our Executive Chairman has said, the past year has arguably been one of the most dynamic in the 112 year history of the company.

Some of the highlights have been;

- Listed as a public company
- Fully merged with Tatura Milk Industries
- Initiated an internal organisational restructure
- Entered into a landmark five year supply contract with Coles
- Developed a clear strategic plan for continued growth and performance development.

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To reiterate some of our key financial measures;

We experienced a marginal decrease of 0.5% in sales revenue on prior year, which we do not consider to be significant as it largely reflected a drop in sales of bulk cheese sold in previous years into the commodity market which is now going into inventory maturing for Coles. Overall business performance was demonstrated by our strong growth in EBITDA and NPBT. However the change in tax status at Tatura Milk Industries resulted in a higher group tax position which impacted on after tax profitability.

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Our Australian customer base remained very stable and we have seen overall growth in profitability from this key business platform which includes major domestic customers such as Fonterra, Kraft and Coles. While international returns were impacted by the very strong Australian currency, we have continued to see growth in Japan, China and South East Asia.

The business continues to identify significant international opportunity and ongoing demand particularly for our key products, cream cheese, processed cheese and nutritional powders.

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While Bega is continually developing its manufacturing platform we do not lose site of the value of the Bega Cheese brand both domestically and internationally. In the highly competitive Australian retail dairy category the Bega brand grew its value share from 13.2% in June 2011 to close the year at 14.5% share by June 2012. This growth is highly satisfactory at a time when the total category grew by 1.5%. Internationally we have also seen brand growth through innovation and market development. For example, Bega Cheese is now a strong player in Mauritius and the Indian Ocean region having launched processed cheese blocks into these markets during the year.

I would take this opportunity to thank many of our local Bega suppliers for supporting us and giving up their time and indeed their images to create new packaging for our brand. As you can see the new packs look great and further reinforce the positioning of the Bega brand as Australia's favourite cheese.

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Our manufacturing base continued to grow, with production volumes exceeding 200,000 tonnes for the first time in the history of the business. Total production of 203,765 tonnes was 9% above the previous year. A significant part of the volume growth was increased cheese production to meet the "Australian Origin" brand proposition of the Coles branded cheese.

To meet the increased demand for Australian cheese the company expanded its direct milk supply base in the spring of 2011. The increased milk intake was achieved at very short notice and we consider that our ability to achieve this is a positive reflection of the significant reputation that Bega has amongst the broad dairy constituency in NSW and Victoria.

Bega Cheese now sources approximately 160 million litres of milk from dairy farmers of the Bega Region and southern NSW, 360 million litres from Northern Victoria and 120 million from Western Victoria and the Gippsland region.

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Managing this business growth has been enabled by a strong balance sheet and cash flow continues to be key focus for the group. Significant elements impacting cash flows in 2011/12 included an increase of $58 million in inventory to service the changing needs of our customer base, most significantly a one-off up-front investment in maturing cheese inventory to meet the needs of the "Coles brand" contract. Other significant elements were the purchase of an additional $4 million of shares in Warrnambool Cheese and Butter Limited, as well as a capital spend of $28 million on the development of property, plant and equipment.

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The capital investment program covered all five manufacturing sites, however two significant projects were for cream cheese at Tatura and natural cheese at Strathmerton. The expansion of cream cheese production at Tatura will lift capacity by forty percent to 22,500 tonnes. This is being commissioned in spring 2012 and is expected to reach full capacity utilisation more quickly than originally projected due to growing demand in Asia, particularly in the food service sector.

The other major expansion project was the investment in natural cheese cutting and consumer packaging capabilities at Strathmerton. While this project experienced some commissioning delays due to the nature of its leading edge technology it is pleasing to note that it is now in full operational mode.

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The overall business now employs approximately 1,500 staff across six locations and as such personal safety continues to be our highest operating priority across the group. While the number of lost time injuries increased marginally over the prior year the increased focus on behavioural leadership in safety has resulted in a significant reduction in the severity of injuries. It is pleasing to note that these behavioural programmes are being very effective as demonstrated for example by our single largest manufacturing site, Tatura Milk Industries, having achieved 180 days free of lost time injuries at this time while Bega was this week awarded the best workplace health and safety management system in the 2012 NSW Worksafe Awards and as you can see our staff were very proud to receive the award from the Minister.

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Over 2011/12 we successfully rolled out the Bega Environmental Management System (knows as BEMS) to our farmer supply base in Victoria and South Australia. This program of land rehabilitation activities is now strongly embraced in all regions of our milk supply catchment and it is appropriate to recognise and thank our farmers for their commitment to this environmental program.

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As I stated at the beginning of this report it is reasonable to conclude that the past year has seen the most organisational and structural change within the company in its 113 year history. This would not have been possible without the passion and commitment of all 1,500 colleagues across the business. The year saw the implementation of a single group executive team and the development of cross-functional teams to focus on specific commercial aspects of the business in order to fulfil the objectives of our strategic plan. These teams have now been embedded in the organisation and it is very encouraging to see the early signs of their effectiveness.

Over the year the Board and Executive refined the strategic direction for the expanded business and we are now shaping our commercial focus to achieve the objectives that have been established. While it is universally known that a litre of milk can be utilised in hundreds of different product types the Bega business has chosen to maximise its strengths by focusing on its competitive advantages in:

- Paediatric and child nutritional dairy products
- Cheddar cheese manufacturing, packaging and processing
- A core dairy platform centred around specialised cream products and cream cheese.

Our objective is to optimise the value created from the existing components of milk that are supplied to the company as opposed to actively seeking to grow the overall milk processing volumes in order to expand in the commoditised dairy products sector.

We believe that this strategy will place us in the best position to take advantage of increasing opportunities in the Asian region while maintaining our leadership capabilities as a provider of services for consumer cheese packaging in the domestic market.

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In closing, I would like to recognise the work of all staff in the business for their passion and commitment in helping to develop a strong platform for the sustainability, future growth and continued performance enhancement of the business.

I am confident that the commitment of staff and the Board, together with a clear vision for the future will continue to see Bega Cheese Limited grow and flourish.

Thank you

October 31, 2012

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