



**Bega Cheese AGM  
Barry Irvin – Executive Chairman  
22 October 2013**

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SLIDE 1

Welcome to Bega Cheese's Annual General Meeting. Today's AGM is being recorded and webcast.

For all voting shareholders as you entered the meeting you should have registered and received a yellow voting card. If you are a non-voting shareholder you should have received a blue card. If you are an attendee you will have received a red card.

Ladies and Gentlemen, as much as I recognise that formalities can feel restrictive this is a formal meeting and we therefore have to conduct it in accordance with good process which will be as follows.

Yellow card holders will be able to vote for or against resolutions using their card and ask any questions they may wish relating to the business of the AGM.

Blue card holders will be able to ask questions but not vote.

Red card holders are most welcome at the meeting but will be unable to participate in the proceedings.

For the benefit of all attendees at this meeting I would ask that you identify yourself before asking a question or making a comment.

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At today's meeting, we have a number of formalities to deal with inclusive of the consideration of the company's 2013 Annual Report, the adoption of the remuneration report, the election of Directors and approval of changes of our constitution.

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I am always very pleased to welcome both our new shareholders and our long term shareholders who know the company so well and have supported the strategy and Directors of the company over many years. Welcome also to our Suppliers. Welcome to Paddy Carney and Steve Bourke representing our auditors PricewaterhouseCoopers and our legal counsel David Ferguson from Addisons, David Williams and Tim Faulkner from our corporate advisors Kidder Williams and Bega Cheese staff.

Are there any apologies?

#### SLIDE 4

Ladies and Gentlemen,

It has been both a rewarding and challenging year at Bega Cheese. In a year where global commodity markets were down and foreign currency relativities were not in our favour it is testament to Bega Cheese business model, the investments made, the deep customer relationships, integrated infrastructure, resilient milk supply base and excellent staff that the business performed at expectation while importantly continuing to plan for the future.

#### SLIDE 5

While I will provide more details in my presentation there is no question that the stable financial performance of the business in a difficult business environment was in stark contrast to some of our competitors. In FY2013 we were delighted to confirm the strengthening of a number of our long term customer relationships, a targeted capital expenditure program that saw increases in capacities in the key manufacturing platforms of cream cheese and cheddar/mozzarella cheese, improved plant efficiency and further investment in key compliance areas of safety and environment.

It was a challenging year on farm, there is no question, a highly competitive Australian market and lower returns from international commodity prices meant that milk price on farm was lower, the company is always conscious of the impact of lower returns for our dairy products on farm gate prices, we were pleased to take initiatives to improve price, in Victoria, as is our normal practice through loyalty payments throughout the year and in NSW in the later part of the year. The returns we paid to our farmers when assessed against the large manufacturers of similarly competing products were reflective of our stated goal of being a leading manufacturing milk paying company.

It has been pleasing to see farm gate milk prices much improved in the current financial year due to an improved outlook for dairy products (particularly whole milk powder) and more favourable exchange rates.

Bega Cheese's proven financial performance, the longer term outlook for dairy, our goal of improving returns across the supply chain and the opportunity that rationalisation and a strong, scale Australian dairy company has lead Bega Cheese to conclude that it is the right time to make a takeover offer to Warrnambool Cheese and Butter Shareholders which would have the effect of merging the WCB business with Bega Cheese. I am sure there is a great deal of interest in the current status of the WCB bid and our strategy. I will be happy to discuss with shareholders our thinking on the WCB offer but as the activity is related to the current financial year, I would like to discuss the WCB bid in the section of our meeting dealing with the constitutional change required to allow the bid to go forward.

I would now like to turn my attention to the results highlights for the 2012/13 year.

## SLIDE 6

Ladies and Gentlemen, I have reported on many historic moments at Bega Cheese and in a challenging year it is very pleasing to report on another one, this year's revenue growth of 8.3% means that for the first time Bega Cheese revenue exceeded \$1 billion, importantly the revenue growth has been accompanied by EBITDA growth of 13.2% to \$64.3 million and earnings per share growth to 16.76 cps a profit after tax of \$25.4 million and a net debt to \$86.7 million.

Revenue growth and improved financial performance has particularly come from the increased volumes of cheese cutting and packaging as a result of our Coles contract and growth in our cream cheese and nutritional business. The prior year did of course include a number of one-off costs associated with the listing of Bega Cheese on the ASX and Tatura Milk Industries merger.

## SLIDE 7

As has always been the case Bega Cheese is very proud of our customer relationships, we have always believed that to be successful we must be customer focused, the FY2013 year was a particularly important one in terms of some of our long term customer relationships.

In FY2013 Bega Cheese ;

- Revised and renewed its cheese cutting and packaging contract with Fonterra for a further 10 years
- Revised and renewed its milk protein concentrate supply agreement with French dairy company Ingredia for a further 5 years
- Revised the dairy nutritionals supply contract with Mead Johnson releasing 5,000 tonnes of infant formula capacity
- Completed the inventory build for the supply of Coles "own brand" cheese, commencing a 5 year supply arrangement and
- Continued our many long and successful relationships with long term customers such as Modelez (Kraft), Lacto Japan, Megmilk Snow, ALDI, Woolworths and many more

## SLIDE 8

In turning our attention to the businesses balance sheet, it is notable that the company is in a very strong financial position, our \$50 million inventory build for Coles is now complete with inventory levels now stable and our debt position improved.

## SLIDE 9

In terms of milk intake, as previously mentioned it was a challenging year, lower milk price and high input costs meant that supply did decline in the second half of the financial year particularly in Northern Victoria. Our milk pool remains well balanced to meet our production and customer requirements.

#### SLIDE 10

I won't dwell on this slide for too long except to emphasise that the business continues to focus on our key platforms of cheddar/mozzarella manufacture, cut, pack and processing, cream cheese and nutritional powders. They are the platforms that are the cornerstone of a well-balanced business with significant opportunity for the future.

#### SLIDE 11

In terms of infrastructure this is a slide that I always like to show, an integrated, quality infrastructure. One of the strength of Bega Cheese is that since 2007 we have not only invested \$150 million in acquisitions we have backed those acquisitions with further \$130 million on capital expenditure creating excellent infrastructure to service our customers wherever they may be in the world. This year capital expenditure of \$27.8 million was directed toward increased capacities in cheddar and cream cheese manufacture, further integration of infrastructure, process improvement, compliance and a number of business improvement initiatives.

#### SLIDE 12

Aidan will outline in more details some further value adding initiatives in his report.

They include;

- Infant formula blending and canning
- Manufacturing improvement/integration
- High value whey processing
- Ongoing development of our FMCG business

All leading to more capacity and capability to service our customers, creating value and improving returns for our suppliers and shareholders.

#### SLIDE 13

With regard to outlook, the details on the slide are reflective of what we see in the immediate future.

Improved and stable global commodity prices, improved currency relativity, business improvement and integration initiatives all leading to improved farm gate milk prices and a positive outlook for both revenue and EBITDA growth. Clearly beyond the 2013/14 year, many in the Australian and global dairy industry are seeing great opportunity, a demonstration of the assessment of that opportunity is the battle currently being fought over WCB. As I said I will talk a little more about WCB as we are dealing with the formalities of the meeting particularly the constitutional change relating to the WCB offer.

Ladies and Gentlemen, one of the keys to the success of Bega Cheese is that the business, as always keeps focus even while significant corporate activity and potential distraction are around us. This year is a great testament to the strength of the entire Bega Cheese team, senior executives, managers, team leaders and staff have all ensured the business has performed in a period of challenging market circumstances and major corporate activity.

#### SLIDE 15

I am very pleased to now handover the presentation to Aidan Coleman who as CEO continues to lead an excellent team, delivering focus and clarity of goals in order to ensure the business meets and exceeds expectations.

SLIDE 16

Thank you Barry

Good morning Ladies and Gentlemen

This is the third occasion since listing on the Australian Securities Exchange, that I have had the pleasure of delivering the CEO's address to shareholders of Bega Cheese Limited at the Annual General Meeting.

On each of the previous occasions I have been pleased to be able to report on the continued evolution and performance improvements of the company. The FY13 year was a strong continuation of this positive performance trend. It is worthwhile reiterating some of the key underlying messages that our Executive Chairman has made, in particular;

SLIDE 16

- Achieving A\$1 billion sales revenue for the first time
- Generating record after tax profit of A\$25.4 million
- Record production volumes exceeding 210,000 tonnes product
- Extension of several long term contracts with key customers

These achievements in FY13 have been significant, particularly in the context of the challenging international dairy environment together with the broad internal organisational changes that the company undertook following its merger with Tatura Milk Industries.

In a macro sense we experienced weak international dairy commodity prices for much of the FY13 year. This was largely due to high levels of global supply carried over in the world market from the preceding year. However later in FY13 we saw a rebalancing of global supply and demand resulting from weaker global production due to droughts in New Zealand, unseasonably cold weather in Europe and our own weather events in Australia together with stronger demand from China. These global supply volatilities were also exacerbated by a weak US dollar and the subsequent high value of the Australian currency which weakened export returns for Australian dairy products. It is encouraging to note that these volatilities have now subsided significantly and we are seeing good returns from the international commodity market as well as an improved currency position.

It is pleasing to note that Bega's robust business structure and product portfolio placed it in a strong position to withstand those global volatilities and deliver record results in FY13.

We have evolved our internal structure so that we can focus on four discrete areas of business activity. These four business platforms include:

- Cut, pack and processing of consumer cheese (FMCG)
- Nutritionals and infant formula
- International consumer and food service products (FMCG)
- Core dairy commodities including cream cheese

#### SLIDE 17

The domestic FMCG business platform performed well in FY13. This was due to overall volume growth from key customers such as Kraft, Coles Supermarkets and Fonterra, as well as resolution of packaging transition issues incurred in the two previous years.

Our international FMCG business, which is largely centred on Asia and the Middle East, also performed strongly as a result of structural improvements that provided increased focus on this key business platform, particularly improved pricing

#### SLIDE 18

The infant formula and nutritionals business has continued to grow, due to an expanded sales base in China and South East Asia. We forecast continued growth in this region and have invested in a nutritional packing operation in Melbourne in order to support our evolution from the supply of bulk nutritional products to being able to provide our customers with fully packaged finished products. This significant value addition will also provide consumers in Asian markets with the added assurance that our products are produced, sealed and shipped in a fully finished format from Australia.

#### SLIDE 19

As previously mentioned returns from international dairy commodities fluctuated extensively over the year. Our commodities portfolio mix placed us in a favourable position to navigate this situation whereby we generated solid returns from products such as milk protein concentrates, lactoferrin and cream cheese while we managed our mix of milk powder production to optimise short term milk solids returns. This optimisation saw us divert production out of cheese in the autumn of FY13 and focus on whole milk powder production in order to optimise returns as that market rose internationally. This planning agility within our production base has been a positive outcome of merging the Bega and Tatura operations.

#### SLIDE 20

The year also saw the iconic “Bega” brand continue to flourish both domestically and internationally. In the Australian market Bega continued to be the number one brand in the cheddar category, finishing the year with a 16% value share of the market. We have continued to expand distribution of the Bega brand internationally so that it is now available in more than twenty countries, stretching from Chile to S.E. Asia to the Gulf States. It is a testament to the Bega brand’s international presence that we often receive feedback about its widespread shelf presence in Dubai supermarkets and a shareholder even informed us that they were able to buy it on the Marquesas’ Islands in the South Pacific. In recent times we have also extended the brand to include cream cheese product sourced from our factory in Tatura.

#### SLIDE 21

##### Manufacturing

We achieved record production in the FY13, exceeding 210,000 tonnes of total products. Our

cheese production at Lagoon Street and at Coburg now focuses largely on the production of table grade cheddars which are matured for consumption as the Bega brand while some variants are for use in several other brands that we pack under contract. The Ridge Street and Strathmerton FMCG packing operations both performed well throughout the year with significant efficiency gains being made in both sites. Tatura Milk produced record volumes of nutritional powders and cream cheese following investments in these two areas and the overall site continued on its strong performance improvement pathway.

One of the most pleasing aspects of our performance relates to our increased focus on safety and we have seen a significant improvement in this area. Safety Always is a core value of the company and we aspire to operate in a zero harm manner. I believe that the significant on-site presence of all managers across the business doing safety walks and discussing safety issues with employees helped in reinforcing our commitment to safety and it was pleasing to see a thirty two percent drop in our lost time injury frequency rate since the prior year. Even more pleasing is that this trend is continuing in the current year.

## SLIDE 22

### Cash Flow and Debt

As I have stated, we have generated strong effective sales growth together with an efficient manufacturing performance over the year. It is also very pleasing to note the very effective cash and inventory management that enabled us to generate \$62 million net operating cash flow and to reduce our year end net debt to \$87 million. Our strong focus on inventory resulted in our year end inventory position of \$163.3 million being only 0.37% above the previous year in a higher value market.

## SLIDE 23

### Strategy

Our guiding strategy continues to remain stable. Our core focus is on cheese and nutritional products with the whey produced as by-product of cheese being a key ingredient in nutritional products. At this stage we are producing only 40% Demineralised whey powder which is unsuitable for infant formula. However we are in the latter stages of an investment plan to upgrade the Lagoon Street whey processing capabilities to produce 90% demineralised whey powder. This investment is likely to be in range of \$15 - \$17 million dollars and is strategically important for the following reasons;

- Generates a significant value addition to whey solids at Lagoon Street, thereby improving our ability to generate stronger farm gate milk prices in the region for supplier sustainability as well as improving overall profitability for shareholders
- Secures our own ingredient source for our growing nutritional products business at a time when this ingredient is in increasingly short supply globally
- Enables us to sell the surplus above our own consumption into world markets or supply to our own key partners. D90 sells for approximately US \$3,200 per tonne whereas D40 currently sells for circa US \$1,800 per tonne.

This project is a further example of our focused organic growth and follows on from recent key investments such as;

- Cream cheese capacity expansion at Tatura now on stream
- Lactoferrin expansion at Tatura coming on stream this current year
- Efficiency improvements at Coburg and related whey processing capacity at Tatura coming on stream currently

- A greenfields infant nutrition canning and packing operation in Melbourne due to be commissioned in early 2014 to support our growth in nutritionals

These investments are all examples of our strategically focused growth and are funded from operating cash flows.

In closing this report I would like to recognise the passion, commitment and capabilities of all of our employees across our organisation. We now employ approximately 1600 people in NSW and Victoria. We are a significant regional employer and approximately ninety six percent of our staff are based in regional areas. We are strongly linked to these regional communities and our charity outreach programmes support these communities. For example the annual Bega Corporate Event raised \$70,000 in March this year for women and children's refuge in South Coast NSW, while the annual Tatura 200 Charity Bike Ride raised \$81,000 in November last year to support the extension of the aged care facility in Tatura. We are proud to be associated with the communities in which we operate and recognise the supporting role we can play in these regions.

I continue to be confident that the company is well placed strategically to benefit from the rising international demand for dairy products. We have built a strong regional milk sourcing and production base which is well integrated with our domestic and international market access structure. This will ensure that we can continue to grow and generate strong business results in future years.

Thank you



SLIDE 24

Thanks Aidan

Ladies and Gentlemen, it has been a dynamic and rewarding year for Bega Cheese.

I am now pleased to open the floor for questions.

Well thank you Ladies and Gentlemen, the next item on the agenda is the adoption of the remuneration report.

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The remuneration report is included in the Annual Report from page 16-26. The report sets out the remuneration of the Executive Chairman, the CEO and other key personnel as well as the Non-Executive Directors.

The Board, Executive Chairman and CEO of the company were responsible for remuneration principles and procedures in FY2013. With market data and external advisors assisting the Board and executives when required. On occasions when discussions involved individuals, they absented themselves from the meeting.

There is no request for change in the remuneration limit for Directors, with remuneration details and approach being approved by shareholders at the AGM held to approve the constitutional changes required to list Bega Cheese on the ASX.

Ladies and Gentlemen, I now require someone to move a resolution to adopt the remuneration report.

Before putting the resolution to vote I wish to advise the details of the valid proxies which are now on the screen;

SLIDE 26

Do I have someone to move the resolution?

Moved... Seconded... I now open the resolution for discussion.

SLIDE 27

I will now move to the election of Directors, we have two Directors that are offering themselves for re-election.

Before I move to the election process I will invite each of the Directors to say a few words. Max and Richard.

I will now move to the formal election process.

The first Director subject to re-election is Max Roberts. Before we proceed I would like to inform the meeting the following proxies in respect to Max's re-election.

SLIDE 28

Max Roberts

Can someone please move that Mr Roberts be re-elected as a Director.

Moved

Seconded

Any discussion

All those in favour.

All those against

Motion passed, congratulations Max.

The second Director subject to re-election is Richard Platts. Before we proceed I would like to inform the meeting the following proxies in respect to Richards re-election.

SLIDE 29

Richard Platts

Can someone please move that Mr Platts be re-elected as a Director.

Moved

Seconded

Any discussion

All those in favour.

All those against

Motion passed, congratulations Richard.

SLIDE 30

Ladies and Gentlemen, we now move to the item 4 in our notice of meeting the constitutional changes which will allow the progression of our offer to WCB shareholders and give flexibility in circumstances of acquisition or scheme of arrangement to allow the shareholder cap to be changed.

The following slides outlines the reason for requesting shareholders approve a change in the mechanism that sets the shareholder cap and importantly the reasons for the requested change in the context of the WCB offer.

SLIDE 31-42

Ladies and Gentlemen, I am happy to take questions on the resolution to change the shareholder cap.

Before we proceed I would like to inform the meeting the following proxies in respect to the constitutional change.

Ladies & Gentlemen thank you very much for your attendance at this year's AGM, I now declare the meeting closed.

October 22, 2013

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For further information please contact:

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