



ASX ANNOUNCEMENT

Appendix 4D and Half Year Accounts 2014

I have pleasure in enclosing the Appendix 4D in relation to the Half Year ended 29 December 2013 together with the 2014 Interim Report for the Half Year ended 29 December 2013.

A handwritten signature in black ink that reads "B. G. Kelly". The signature is fluid and cursive, with a long, sweeping tail on the final 'y'.

Brett Kelly
Company Secretary

19 February 2014

For further information please contact

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Company Secretary
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Bega Cheese Limited

ASX Half-Year Information - 29 December 2013

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with
the 30 June 2013 Annual Report

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4D Item	Percentage		Amount \$'000	
Revenue from ordinary activities	Up	4.1%	To	\$510,616
Profit from ordinary activities after tax	Up	17.9%	To	\$18,730
Profit from ordinary activities after tax attributable to members	Up	17.9%	To	\$18,730
Net Profit for the period attributable to members	Up	17.9%	To	\$18,730

Net Tangible Assets Backing	29 December 2013	30 December 2012
Net tangible assets backing per share	\$2.04	\$1.65

Dividends / Distributions	Amount per Security cents	Franked Amount per Security cents
Interim Dividend (<i>Prior Year</i>)	3.5	3.5
Final Dividend (<i>Prior Year</i>)	4.0	4.0
Interim Dividend Declared 19 February 2014 (<i>Current Year</i>)	4.0	4.0

Record Date for Determining Entitlements	Date
Interim Dividend	3 March 2014

Explanation of revenue

Overall sales volumes were lower partly due to a decline in milk intake of 8%, however revenue increased by 4% due to:

- strong increases in dairy commodities across the board, with near-record AUD sales values being evidenced for skim and whole milk powder on major export market indicators
- the Group being able to optimise returns from milk solids by changing product mix and therefore increase overall sales revenue despite the decline in volumes. This includes development in the Group's nutritional business.

Explanation of profit from ordinary activities after tax, profit from ordinary activities after tax attributable to members and net profit for the period attributable to members

The increase in profit from ordinary activities after tax is due to:

- gross profit being stable with increases in payments to direct farm suppliers
- an emphasis on cost control and efficiency including a reduction in distribution costs
- a reduction in some direct costs due to lower production volumes.

Explanation of net tangible assets backing

Net tangible assets backing per share has increased over the prior period as net tangible assets have increased whilst the number of shares on issue has remained stable. The increase in net assets is largely attributable to profitable trading and the increase in the value of shares in Warrnambool Cheese & Butter Factory Company Holdings Limited ("WCB") by \$38,612,000 net of tax.

Explanation of dividends

The interim dividend declared for the current period is improved on prior year, consistent with the strong result in the current period. The interim dividend will be paid on 17 March 2014.

RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

Dividend Reinvestment Plan

The Dividend Reinvestment Plan is not in operation.

Details of subsidiaries, associates and joint venture entities

Name of subsidiary	Reporting entity's percentage holding	
	Current period	Previous period
Tatura Milk Industries Limited	100%	100%
Name of joint venture	Current period	Previous period
Capitol Chilled Foods (Australia) Pty Limited	25%	25%



Bega Cheese Limited

**Consolidated 2014 Interim Report for the
Half-Year Ended 29 December 2013**

ABN 81 008 358 503

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DIRECTORS' REPORT

Directors' Report

Your Directors present their report on the consolidated entity ("Bega Cheese Group" or "Group") consisting of Bega Cheese Limited ("Bega Cheese" or the "Company") and the entities it controlled at the end of or during the half-year ended 29 December 2013.

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
Supplier Director
Director since September, 1989

Joy Linton

Chair of Audit & Risk Committee
Independent Director
Director since October, 2011

Jeff Odgers

Supplier Director
Director since December, 2011

Richard Platts

Supplier Director
Director since November, 2000

Rick Cross

Supplier Director
Director since December, 2011

Peter Margin

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

Richard Parbery

Supplier Director
Director since September, 1988

Max Roberts

Supplier Director
Director since September, 1983

REPORTING ENTITY AND PERIOD

This half-year report covers the operations of the Bega Cheese Group, including wholly owned subsidiary Tatura Milk Industries Limited ("Tatura Milk").

This half-year report covers the period from 1 July 2013 to 29 December 2013, being the first half of FY2014 ("1H FY2014"). The relevant prior period comparatives for the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and related notes are for the period from 1 July 2012 to 30 December 2012 ("1H FY2013"). The relevant prior period comparative for the Consolidated Balance Sheet is at 30 June 2013. The arrangements with the joint venture partner, Capitol Chilled Foods (Australia) Pty Limited ("CCFA"), have not changed. However, due to a change in accounting requirements, the presentation of CCFA in the financial statements has resulted in the prior year financial statements being restated. All comparatives in this report are based on the restated figures. The detailed impact of this change is described in Note 1(a).

REVIEW OF OPERATIONS

The principal activity of the Group during the 1H FY2014 was receiving, processing, manufacturing and distributing dairy and associated products.

Performance Highlights

The first half of FY2014 saw the Group achieve the following key highlights:

- generated earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$40.8 million, being an increase of 10% on the prior year period
- generated net profit after tax ("NPAT") of \$18.7 million, being an increase of 18% on the prior year period

DIRECTORS' REPORT (CONTINUED)

- generated earnings per share of 12.33 cents per share, being an increase of 18% on the prior year period
- on 19 February 2014 Bega Cheese declared a fully franked interim dividend of 4.0 cents per share, payable on 17 March 2014, being an increase of 14% on the FY2013 interim dividend.

Review of the Group's equity interest in Warrnambool Cheese & Butter

On 12 September 2013 Bega Cheese lodged a Bidder's Statement proposing a merger with WCB with the Australian Securities and Investments Commission ("ASIC"). The merger proposal offered 1.2 Bega Cheese shares and \$2.00 cash for each WCB share it did not already own. In pursuing this merger Bega Cheese was aiming to bring together three iconic Australian dairy companies Bega Cheese, Tatura Milk and WCB, to facilitate further rationalisation of the Australian dairy industry under Australian ownership.

A battle for control of WCB quickly followed Bega Cheese's merger proposal, with Saputo Dairy Australia Pty Ltd ("Saputo") and Murray Goulburn Co-operative Co Limited ("MG") each lodging multiple competing takeover offers.

On 14 November 2013 Bega Cheese announced it would increase its offer to 1.5 Bega Cheese shares and \$2.00 cash for each WCB share and declare its offer unconditional and final. Bega Cheese's offer ultimately closed on 20 December 2013 at which time it held 10,521,910 shares in WCB, being 18.8% of the WCB shares on issue.

Subsequent to 29 December 2013 Bega Cheese accepted Saputo's offer and sold its shares in WCB, which resulted in a significant profit and cash injection into the business (refer to the Subsequent Events Note 9 (page 21) for further details). Bega Cheese will continue to investigate utilising its current balance sheet strength to facilitate industry rationalisation, grow the business, secure milk supply by providing leading pay rates and innovative support to our dairy farmer suppliers and provide strong ongoing returns to shareholders.

Bega Cheese's offer for WCB precipitated a re-rating of the value of Australian dairy industry assets which saw a significant increase in Bega Cheese's share price. During the bid process, Fonterra made a significant investment in Bega Cheese shares, purchasing 10% of the Company's shares.

Revised Syndicated Debt Facility

Bega Cheese Group secured \$230 million in additional debt facilities during 1H FY2014 to fund the cash component of Bega Cheese's merger proposal with WCB and contingent facilities for the prospective expanded group. These additional debt facilities were incorporated into the Syndicated Debt Facility with Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A (Australia Branch), being a member of the Rabobank group and Westpac Banking Corporation. These additional facilities were cancelled by Bega Cheese on 23 December 2013 after Bega Cheese's offer closed, restoring the facility structure to that of 30 June 2013.

Capital Investment during 1H FY2014

Bega Cheese continued to invest in increased capacity and capability, with \$16.8 million being directed to capital expenditure during 1H FY2014. The major capital projects commenced during the period included:

- improving milk and whey handling capability at the Coburg, Victoria site, to facilitate the transfer of liquid whey from that site for reprocessing
- development of whey drying capacity at the Tatura, Victoria site, to enable Bega Cheese Group to fully utilise all liquid whey available to it for manufacture of demineralised whey powder
- commencement of a nutritionals powder blending and canning facility at Derrimut, Victoria, that will be commissioned in 2H FY2014 and will provide Bega Cheese Group direct canning and blending capability, significantly reducing the need for third party contract packers.

EARNINGS PERFORMANCE 1H FY2014

Group consolidated revenue totalled \$510.6 million, compared to \$490.4 million in 1H FY2013, being an increase of \$20.2 million or 4%. The increase in Group consolidated revenue is a reflection of:

- a strong increase in dairy commodities across the board, with near-record AUD sales values being evidenced for skim and whole milk powder on major export market indicators

DIRECTORS' REPORT (CONTINUED)

- increased dairy commodity prices providing greater opportunities for the Group to optimise returns from milk solids
- the Group continuing to develop its nutritionals business, with volume and value increasing.

The Group's strategy is to maintain its leading position in value adding cheese and other dairy products while maintaining flexibility to direct milk solids away from conventional dairy commodities in favour of more technically advanced products that are closely aligned to specific customer needs where it is commercially beneficial to do so. This strategy has seen ongoing growth opportunities in infant and growing-up nutritionals, cheese products for the Asian food service sector and lactoferrin products.

The Group generated EBITDA of \$40.8 million, compared to \$37.2 million in 1H FY2013, being an increase of 10%.

The Group generated earnings before interest and tax ("EBIT") of \$30.2 million compared to \$26.2 million in 1H FY2013, being an increase of 15%.

The Group generated net profit before tax ("PBT") of \$26.0 million, compared to \$21.8 million in 1H FY2013, being an increase of 19%.

The Group generated NPAT of \$18.7 million, compared to \$15.9 million in 1H FY2013, being an increase of 18%. Other comprehensive income due to equity holders was \$40.6 million, compared to \$1.7 million in 1H FY2013, being an increase of \$38.9 million. The increase was mainly the result of an increase of \$38.6 million (net of tax) in the market price of shares in WCB.

The half-year result continues to be influenced by seasonal factors, the result for the half-year is therefore not expected to reflect the proportional full year result of the Group.

Milk Supply

Total intake for 1H FY2014 was 336 million litres, a decrease in intake of 8%. A challenging winter period and a delayed spring across all Bega Cheese supply regions combined with a realignment of supply (particularly in NSW) and significant competition for milk contributed to the decrease in overall supply.

Improved global markets and currency relativity has seen a significant increase in farm gate milk prices with milk prices during 1H FY2014 increasing 24% over 1H FY2013.

Bega Cheese's milk supply remains aligned to our customers' needs and sufficient to ensure the efficient operation of our production facilities. However the Group will focus in the near term on providing incentives to grow its existing milk pool and procuring new supply. A number of new entrants in milk supply procurement, strong competition amongst existing players and increased returns from international markets will continue to create a highly competitive market for milk.

Operations

The Group continued to operate five production facilities during the reporting period.

Lagoon Street, Bega, New South Wales

Cheddar cheese, whey powder and natural snacks production continued at Lagoon Street, Bega. Whilst demand for products from this site remained strong throughout 1H FY2014 total production was down as a result of:

- milk intake at the Lagoon Street site being down on the prior year for reasons discussed above
- Bega Cheese Group optimising returns from the total milk pool resulting in less milk being directed to the Lagoon Street site for manufacture.

Coburg, Victoria

Cheddar cheese and liquid whey production continued at Coburg, Victoria. Total production was down as a result of:

- a capital upgrade at Coburg during 1H FY2014 to improve cheddar production and whey handling capability, resulting in the plant being offline for a short period
- Bega Cheese Group optimising returns from the total milk pool seeing it redirect milk away from Coburg and to Tatura, where higher dairy products returns were available.

DIRECTORS' REPORT (CONTINUED)

The Group has improved the flexibility of milk movements between the Coburg and Tatura sites, which has resulted in improved margins for dairy commodities as the Group took advantage of the strong prices available from Tatura Milk's overall product mix in 1H FY2014.

Ridge Street, Bega, New South Wales and Strathmerton, Victoria

The cheese cut, pack and process operations continued to focus on operational efficiency and cost control in 1H FY2014.

Tatura Milk, Victoria

Tatura Milk's operations in Northern Victoria benefited from strong dairy commodity prices and a softening AUD against the USD in 1H FY2014. The Group directed as much milk as practicable to this site in order to improve product mix in light of strong dairy commodities during the period. Whilst milk was proactively directed to Tatura, overall production was down on the prior year due to less milk being available to Bega Cheese Group for reasons discussed above.

Cash Flows

The Group generated a net cash inflow from operating activities of \$6.0 million, compared to a net cash inflow of \$0.1 million in 1H FY2013.

Inventory has increased since 1 July 2013 as a result of the seasonal build-up of stock as increased milk intake in spring leads to a build-up of production in the first half of each financial year. Inventory values are also up at 29 December 2013 as a result of higher milk prices being reflected in the cost of goods manufactured or procured and higher dairy commodity values supporting the recoverable value of stock on hand.

Debtors has also increased during the same period as a result of increased sales in the latter part of 1H FY2014.

The Group has financed a very active capital expenditure programme in 1H FY2014, with \$16.8 million of capital expenditure in the period. The majority of this capital expenditure programme is directed towards margin-improving initiatives. As discussed above, these initiatives include:

- infant canning capability at Derrimut
- whey handling at Coburg and whey drying capacity at Tatura, to complement the cheese manufacturing activities of the Coburg site.

Cash flows from investing activities include \$0.5 million for the purchase of WCB shares and \$2.0 million of costs related to the offer, including financing costs.

Markets and Sales

During 1H FY2014 the Group has continued to focus on its key platforms of cut, pack and processing consumer cheese, infant and growing-up dairy nutritional products and core dairy including cream cheese.

Group consolidated revenue of \$510.6 million during 1H FY2014 compared to \$490.4 million in 1H FY2013, being an increase of 4 %.

Strengthening dairy commodity prices in 1H FY2014 provided a very positive environment for the global dairy industry. Australian dairy companies have also benefited from the easing in the value of the AUD compared to the USD. Bega Cheese Group has seen strong demand for its product range and has been able to increase selling prices across its dairy commodities product range.

Corporate Strategy

The recent battle for control of WCB was a demonstration of both the value of dairy assets in Australia and Bega Cheese's positioning as a key player in the ongoing rationalisation of the Australian dairy industry.

Whilst Bega Cheese was not successful in its bid for WCB, the sale of the 18.8% stake in the company in January 2014 generated \$98.9 million of cash before tax and costs. Bega Cheese has a very strong balance sheet and is well positioned to participate in the ongoing opportunities in the Australian dairy industry.

DIRECTORS' REPORT (CONTINUED)

There are a number of organic growth opportunities for the business including further value adding of our whey streams, increased international demand for our existing processed cheese capacity and continued growth in high value dairy nutritionals. The Group expects to consider a number of investment and corporate opportunities in the short to medium term.

Strategy

The Board's strategy continues to focus on creating value for our customers, suppliers and shareholders, optimising returns from milk solids, safeguarding and energising the workforce and continuing long term support and engagement with the communities in which the Group operates.

The Group continues to leverage off its competitive advantages in nutritional food products, FMCG cheese packaging, cream cheese and its core dairy manufacturing network. The Group is also investing in infrastructure and skills within the business to ensure Bega Cheese Group is the dairy company of choice for customers, staff, suppliers and investors.

Outlook

The outlook for dairy commodities continues to be positive, largely due to continuing strong demand from China for whole milk powders and whey powders. This is due to increasing per capita growth in dairy consumption in China together with a decline in domestic milk production. This situation is under-pinning global pricing stability. Occurring concurrently is growth in demand for infant and adult nutritional dairy products as well as growth in the western style bakery sector in Asian markets. These growth sectors are core investment and business platforms for the Group.

Our conclusion is that the outlook for dairy in general is stable and this is driving positive sentiment within the business activities of our Company.

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 11.

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' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

SUBSEQUENT EVENTS**Sale of WCB shares**

On 16 January 2014, Bega Cheese announced its decision to sell its complete holding of 10,521,910 WCB shares to Saputo under the terms of Saputo's Third Supplementary Bidder's Statement dated 17 December 2013.

As at the date of these accounts, Bega Cheese has received \$98,906,000. The profit after tax on sale of the shares is estimated at \$44 million and will be reflected through profit and loss in the full year FY2014 accounts, net of related costs and tax, with a corresponding decrease to the fair value reserve.

Revised Syndicated Debt Facility

As a result of the cash received on the sale of WCB shares, Bega Cheese has reviewed its financing requirements. On 31 January 2014, Bega Cheese reduced certain borrowing facilities to have access to the following:

	CONSOLIDATED	
	31 January 2014 \$'000	30 June 2013 \$'000
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	39,000	80,000
Syndicated Facility - 5.0 year Revolving Cash Advance Facility	1,000	60,000
Inventory Facility	50,000	50,000
Other Facilities	8,000	8,000
Total Facilities	98,000	198,000

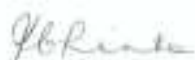
Dividend

On 19 February 2014, the Directors declared an interim fully franked dividend of 4.00 cents per share, which represents a distribution of \$6,090,000. An interim dividend of 3.50 cents per share was paid in respect of 1H FY2013.

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



Barry Irvin
Executive Chairman



Joy Linton
Chair of Audit & Risk Committee

Melbourne
19 February 2014



Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the review of Bega Cheese Limited for the half-year ended 29 December 2013, 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 'SJ Bourke', is written over a horizontal line.

SJ Bourke
Partner
PricewaterhouseCoopers

Sydney
19 February 2014

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	CONSOLIDATED	
	29 December 2013 \$'000	Restated* 30 December 2012 \$'000
Revenue	510,616	490,440
Cost of sales	(441,772)	(422,125)
Gross profit	68,844	68,315
Other revenue	5,569	4,726
Distribution expense	(21,221)	(23,014)
Marketing expense	(3,020)	(4,257)
Occupancy expense	(1,551)	(1,502)
Administration expense	(18,876)	(18,838)
Finance costs	(4,322)	(4,524)
Share of net profit of joint venture	559	848
Profit before income tax	25,982	21,754
Income tax expense	(7,252)	(5,864)
Profit for the period	18,730	15,890
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Cash flow hedges	1,955	253
Change in the fair value of other financial assets	38,612	1,417
Total other comprehensive income	40,567	1,670
Total comprehensive income for the period	59,297	17,560
Profit attributable to owners of Bega Cheese Limited	18,730	15,890
Total comprehensive income for the period attributable to owners of Bega Cheese Limited	59,297	17,560
	2013	2012
	Cents	Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:		
Basic earnings per share	12.33	10.47
Diluted earnings per share	12.24	10.45

* See Note 1(a) for details about restatements for changes in accounting policies.

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet

	Notes	CONSOLIDATED	
		29 December 2013 \$'000	Restated* 30 June 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		14,590	22,698
Trade and other receivables		113,208	103,476
Inventories		181,947	163,027
Total current assets		309,745	289,201
Non-current assets			
Other financial assets	4	97,538	39,028
Property, plant and equipment		215,470	209,123
Deferred tax assets		5,632	9,157
Intangible assets		1,392	1,580
Investments accounted for using the equity method		1,066	1,132
Total non-current assets		321,098	260,020
Total assets		630,843	549,221
LIABILITIES			
Current liabilities			
Trade and other payables		144,140	142,689
Derivative financial instruments		2,508	7,191
Borrowings	5	682	601
Current tax liabilities		6,135	1,397
Provisions		23,484	22,893
Total current liabilities		176,949	174,771
Non-current liabilities			
Borrowings	5	120,711	110,300
Deferred tax liabilities		13,646	-
Provisions		2,081	2,198
Total non-current liabilities		136,438	112,498
Total liabilities		313,387	287,269
Net assets		317,456	261,952
EQUITY			
Contributed equity	6	103,642	101,902
Reserves	7	66,694	25,585
Retained earnings		147,120	134,465
Capital and reserves attributable to owners of Bega Cheese Limited		317,456	261,952
Total equity		317,456	261,952

* See Note 1(a) for details about restatements for changes in accounting policies.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes In Equity

Consolidated	Contributed	Share Based	Capital	Hedging	Fair	Transactions	Retained	Total
	Equity	Payment	Profits	Reserve	Value	controlling	Earnings	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	Interests	\$'000	\$'000
		Reserve	Reserve		Reserve	Reserve		
Balance as at 1 July 2012	101,279	855	33,959	(358)	3,626	(12,567)	119,646	246,440
Profit for the period	-	-	-	-	-	-	15,890	15,890
Other comprehensive income for the period	-	-	-	253	1,417	-	-	1,670
Issue of shares under employee share scheme	612	(612)	-	-	-	-	-	-
Employee share scheme costs	-	234	-	-	-	-	-	234
Shares issued under Dividend Reinvestment Plan (Note 6)	11	-	-	-	-	-	-	11
Dividends provided for or paid	-	-	-	-	-	-	(5,325)	(5,325)
Balance as at 30 December 2012	101,902	477	33,959	(105)	5,043	(12,567)	130,211	258,920
Balance as at 1 July 2013	101,902	518	33,959	(3,226)	6,901	(12,567)	134,465	261,952
Profit for the period	-	-	-	-	-	-	18,730	18,730
Other comprehensive income for the period	-	-	-	1,955	38,612	-	-	40,567
Employee share scheme costs (Note 8)	-	542	-	-	-	-	-	542
Shares issued as consideration net of transaction costs (Note 6)	1,740	-	-	-	-	-	-	1,740
Dividends provided for or paid	-	-	-	-	-	-	(6,075)	(6,075)
Balance as at 29 December 2013	103,642	1,060	33,959	(1,271)	45,513	(12,567)	147,120	317,456

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows

	CONSOLIDATED	
	29 December 2013 \$'000	Restated* 30 December 2012 \$'000
Cash flows from operating activities		
Receipts from customers inclusive of goods and services tax	521,361	497,833
Payments to suppliers and employees inclusive of goods and services tax	(509,159)	(492,094)
Interest and other costs of financing paid	(3,472)	(3,820)
Income taxes paid	(2,729)	(1,833)
Net cash inflow from operating activities	6,001	86
Cash flows from investing activities		
Payments for property, plant and equipment	(16,844)	(10,499)
Payments for shares in listed companies	4 (506)	-
Payments related to corporate activity	(1,961)	-
Proceeds from sale of property, plant and equipment	35	-
Proceeds from sale of shares in unlisted companies	-	12
Interest received	125	102
Joint venture partnership distributions received	625	813
Net cash (outflow) from investing activities	(18,526)	(9,572)
Cash flows from financing activities		
Proceeds from borrowings	10,492	31,793
Repayment of borrowings	-	(8,200)
Dividends paid to members	(6,075)	(5,314)
Net cash inflow from financing activities	4,417	18,279
Net (decrease)/increase in cash and cash equivalents	(8,108)	8,793
Cash and cash equivalents at the beginning of the period	22,698	2,137
Cash and cash equivalents at the end of the period	14,590	10,930

* See Note 1(a) for details about restatements for changes in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This consolidated interim financial report for the half-year reporting period ended 29 December 2013 (corresponding prior period being 30 December 2012) 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) and joint venture, Capitol Chilled Foods (Australia) Pty Ltd (joint venture or CCFA).

This 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 2013 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, except as set out below:

a. New and Amended Standards Adopted by the Group

The Group has applied the following standards and amendments for the first time in its annual reporting period commencing after 1 July 2013.

- AASB11 Joint Arrangements and AASB 128 Investments in Associates and Joint Ventures.

Other new standards that are applicable for the first time for the December 2013 half-year did not affect the entity's accounting policies, any of the amounts in the financial statements or introduce new disclosures for the interim report.

Changes in Accounting Standards – Principles of Consolidation – Subsidiaries and Joint Arrangements.

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Bega Cheese Limited has assessed the nature of its joint arrangement with CCFA and determined it is a joint venture.

Under the Group's previous accounting policy, the interest in its joint venture was accounted for using the proportionate consolidation method, whereby the Group combined its share of the jointly controlled entity's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. This method is no longer permitted under AASB 11. Instead, interests in joint ventures must now be accounted for using the equity method. Under the equity method, the interest in CCFA is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary, to ensure consistency with the policies adopted by the Group.

As required under AASB 11, the change in policy has been applied retrospectively and, as consequence, adjustments were recognised in the balance sheet as of 1 July 2012.

The tables below show the effect of the change in accounting policy on individual line items in each of the financial statements. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

The Group recognised its investment in the joint venture at the beginning of the earliest period presented (1 July 2012) as the total of the carrying amounts of the assets and liabilities previously proportionately consolidated, including any goodwill arising from the acquisition of the investment. This is the deemed cost of the Group's investments in the joint venture for applying equity accounting. As a consequence, the change in policy did not have any impact on the Group's net assets, items of equity, profit after tax and earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The impact of this change in the entity's accounting policy on individual line items and other items as detailed in Note 1(b) in the financial statements can be summarised as follows:

	Prior year restatement			30 December 2012 (Restated)
	30 December 2012 (Previously stated)	Joint arrangements Increase/ (Decrease)	Other Items Increase/ (Decrease)	
	\$'000	\$'000	\$'000	\$'000
Income statement (extracts)				
Revenue	491,308	(8,211)	7,343	490,440
Cost of sales	(419,534)	5,919	(8,510)	(422,125)
Other revenue	4,539	(15)	202	4,726
Distribution expense	(22,675)	844	(1,183)	(23,014)
Marketing expense	(5,085)	341	487	(4,257)
Occupancy expense	(1,158)	-	(344)	(1,502)
Administration expense	(21,078)	274	1,966	(18,838)
Finance costs	(4,563)	-	39	(4,524)
Share of net profit of joint venture	-	848	-	848
Profit before income tax	21,754	-	-	21,754
Statement of cash flows (extracts)				
Cash flows from operating activities				
Receipts from customers inclusive of goods and services tax	498,363	(530)	-	497,833
Payments to suppliers and employees inclusive of goods and services tax	(489,224)	(2,870)	-	(492,094)
Net cash inflow/(outflow) from operating activities	3,486	(3,400)	-	86
Dividends received	999	-	(999)	-
Payments for property, plant and equipment	(10,816)	317	-	(10,499)
Payments for shares in listed companies	(999)	-	999	-
Joint venture partnership distributions received	-	813	-	813
Net cash (outflow) from investing activities	(10,702)	1,130	-	(9,572)
Net increase/(decrease) in cash and cash equivalents	11,063	(2,270)	-	8,793
Cash and cash equivalents at the beginning of the period	2,926	(789)	-	2,137
Cash and cash equivalents at the end of the period	13,989	(3,059)	-	10,930
	30 June 2013	Joint arrangements	Other Items	30 June 2013
	\$'000	\$'000	\$'000	\$'000
Balance sheet (extracts)				
Current assets				
Cash and cash equivalents	24,235	(1,537)	-	22,698
Trade and other receivables	104,303	(1,662)	835	103,476
Inventories	163,277	(250)	-	163,027
Total current assets	291,815	(3,449)	835	289,201
Non-current assets				
Property, plant and equipment	209,892	(769)	-	209,123
Investments accounted for using the equity method	-	1,132	-	1,132
Total non-current assets	259,657	363	-	260,020
Total assets	551,472	(3,086)	835	549,221
Current liabilities				
Trade and other payables	144,940	(3,086)	835	142,689
Total current liabilities	177,022	(3,086)	835	174,771
Total liabilities	289,520	(3,086)	835	287,269
Net assets	261,952	-	-	261,952

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. Reclassification of Other Items

The classification of certain items was reviewed in the second half of the prior year due to changing arrangements with customers. As a result, service income was reclassified between sales, cost of sales and other income, and distribution, administration and marketing costs were re-allocated. The presentation has been corrected by restating each of the affected financial statement line items for the prior period as summarised in Note 1(a).

The elimination of balances between the Company and CCFA have been adjusted, following the change to the equity accounting method.

2. SEASONAL FACTORS

The Consolidated Statement of Comprehensive Income for the half-year ended 29 December 2013 is not expected to reflect the proportional full year result of the Group 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 - manufactures natural cheese, processed cheese, powders and butter and packages cheese products.
- ii. Tatura Milk - manufactures and packages cream cheese, powders and nutritional.

b. Segment Information Provided to the Board of Directors

	Bega Cheese	Tatura Milk	Group Eliminations	Group Total
Period Ending 29 December 2013	\$'000	\$'000	\$'000	\$'000
Revenues from external customers	337,058	182,905	(9,347)	510,616
EBITDA	18,326	22,501	-	40,827
Depreciation, amortisation and impairment	(6,311)	(4,348)	-	(10,659)
EBIT	12,015	18,153	-	30,168
Interest revenue	52	84	-	136
Interest expense	(3,691)	(631)	-	(4,322)
Profit before tax	8,376	17,606	-	25,982
Income tax expense	(2,515)	(4,737)	-	(7,252)
Profit after tax	5,861	12,869	-	18,730
Total segment assets	471,857	237,583	(78,597)	630,843
Total segment liabilities	219,222	95,902	(1,737)	313,387
Purchases of property, plant and equipment	5,740	11,104	-	16,844
Period Ending 30 December 2012				Restated*
Revenues from external customers	338,090	158,404	(6,054)	490,440
EBITDA	20,417	16,771	-	37,188
Depreciation, amortisation and impairment	(6,927)	(4,093)	-	(11,020)
EBIT	13,490	12,678	-	26,168
Interest revenue	64	46	-	110
Interest expense	(3,932)	(592)	-	(4,524)
Profit before tax	9,622	12,132	-	21,754
Income tax expense	(2,643)	(3,221)	-	(5,864)
Profit after tax	6,979	8,911	-	15,890
Total segment assets - 30 June 2013	418,579	210,237	(79,595)	549,221
Total segment liabilities - 30 June 2013	206,624	83,380	(2,735)	287,269
Purchases of property, plant and equipment	4,803	5,696	-	10,499

* See Note 1(a) for details about restatements for changes in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Consolidated Statement of Profit and Loss and Other Comprehensive Income.

ii. EBITDA

The Board of Directors assess performance of the operating segments based on EBITDA.

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 in 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. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

In 1H FY2014, Bega Cheese's investment in WCB was increased through the purchase of additional shares costing \$3,350,000 (1H FY2013: \$1,000,000) financed partly by the issue of Bega Cheese shares. The purchases included dividend re-investment of \$1,101,000 (1H FY2013: \$1,000,000) and shares purchased for \$2,249,000 (1H FY2013: Nil) under Bega Cheese's Bidder's Statement of 12 September 2013, proposing a merger with WCB. The terms of the offer, which were updated on 14 November 2013, were 1.5 Bega Cheese shares and \$2.00 cash for each WCB share sold to Bega Cheese. 253,148 shares were sold to Bega Cheese under the offer, bringing Bega Cheese's total holding of WCB shares at 29 December 2013 to 10,521,910 shares.

Bega Cheese has incurred certain costs in relation to the corporate activity with WCB including legal and advisory costs of \$958,000 and financing costs of \$902,000 in the 1H FY2014 results.

5. BORROWINGS

To finance the prospective merger with WCB, Bega Cheese entered into an Amendment and Restatement Deed to the Syndicated Facilities Deed on 12 September 2013 which provided an additional \$230 million in available facilities. No significant changes were made to the existing financing arrangements which ultimately came into effect. The additional borrowing facilities established by Bega Cheese Limited were cancelled on 23 December 2013.

6. CONTRIBUTED EQUITY

a. Share Capital

	CONSOLIDATED	
	29 December 2013 \$'000	30 June 2013 \$'000
Ordinary shares fully paid	103,642	101,902

During the period under review, Bega Cheese Limited issued 379,752 shares at a value of \$1,740,000 net of costs as partial consideration for the purchase of additional shares in WCB. For further details of the purchase, see Note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. Movement in Number of Shares and Share Capital Value

	Total & Ordinary Shares Number '000	Total & Ordinary Shares \$'000
Shares on issue at 1 July 2012	151,497	101,279
Shares issued under dividend reinvestment plan	6	11
Employee share scheme issues	363	612
Ordinary shares on issue at 30 December 2012	151,866	101,902
Shares on issue at 1 July 2013	151,866	101,902
Shares issued as purchase consideration for other financial assets, net of costs	380	1,740
Ordinary shares on issue at 29 December 2013	152,246	103,642

7. RESERVES

	CONSOLIDATED	
	29 December 2013 \$'000	30 June 2013 \$'000
Share based payment reserve (note 8)	1,060	518
Capital profits reserve	33,959	33,959
Hedging reserve	(1,271)	(3,226)
Fair value reserve	45,513	6,901
Transactions with non-controlling interests reserve *	(12,567)	(12,567)
	66,694	25,585

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

8. SHARE BASED PAYMENTS

a. Bega Cheese Share Group Plans

The movement in the Reserve is as follows:

	CONSOLIDATED	
	29 December 2013 \$'000	30 June 2013 \$'000
Reserve balance at beginning of period	518	855
Shares issued to employees under the Retention Award	-	(612)
Employee share scheme expense	542	275
Reserve balance at end of period	1,060	518

The prior year issue of 362,500 shares under the Retention Award, at a value of \$612,000, was to reward staff loyalty by a one-off issue of shares on the listing of Bega Cheese on the ASX. Shares were issued for no consideration.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. Expenses arising from Share Based Payments

	CONSOLIDATED	
	29 December 2013 \$'000	30 June 2013 \$'000
Retention Award	-	86
Expense in relation to Long Term Incentive Plan	542	189
Total expense	542	275

9. SUBSEQUENT EVENTS

a. Sale of WCB shares

On 16 January 2014, Bega Cheese announced its decision to sell its complete holding of 10,521,910 WCB shares to Saputo under the terms of Saputo's Third Supplementary Bidder's Statement dated 17 December 2013.

As at the date of these accounts, Bega Cheese has received \$98,906,000. The profit after tax on sale of the shares is estimated at \$44 million and will be reflected through profit and loss in the full year FY2014 accounts, net of related costs and tax, with a corresponding decrease to the fair value reserve.

b. Revised Syndicated Debt Facility

As a result of the cash received on the sale of WCB shares, Bega Cheese has reviewed its financing requirements. On 31 January 2014, Bega Cheese reduced certain borrowing facilities to have access to the following:

	CONSOLIDATED	
	31 January 2014 \$'000	30 June 2013 \$'000
Syndicated Facility - 3.5 year Revolving Cash Advance Facility	39,000	80,000
Syndicated Facility - 5.0 year Revolving Cash Advance Facility	1,000	60,000
Inventory Facility	50,000	50,000
Other Facilities	8,000	8,000
Total Facilities	98,000	198,000

c. Dividend

On 19 February 2014, the Directors declared an interim fully franked dividend of 4.00 cents per share, which represents distribution of \$6,090,000. An interim dividend of 3.50 cents per share was paid in respect of 1H FY2013.

10. NON CASH INVESTING AND FINANCING ACTIVITIES

	CONSOLIDATED	
	29 December 2013 \$'000	30 December 2012 \$'000
Dividends paid by way of share issue under dividend re-investment plan	1,101	999
Payment for investments by issue of shares	1,743	-

DIRECTORS' DECLARATION

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 12 to 21 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 29 December 2013 and of its performance for the half-year ended on that date; and
- b. there are reasonable grounds to believe that Bega Cheese Limited 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
19 February 2014



Independent Auditor's Review Report to the Members 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 consolidated balance sheet as at 29 December 2013, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 internal 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 29 December 2013 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.

Independence

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

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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 as at 29 December 2013 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*.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 29 December 2013 included on Bega Cheese Limited's web site. The company's directors are responsible for the integrity of the Bega Cheese Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in dark ink, appearing to read 'SJ Bourke', written in a cursive style.

SJ Bourke
Partner
PricewaterhouseCoopers

Sydney
19 February 2014