



Bega Cheese AGM
Barry Irvin – Executive Chairman
28 October 2014

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SLIDE 1

Welcome to Bega Cheese's Annual General Meeting, which is being recorded and webcast.

For all shareholders who are voting, as you entered the meeting you should have registered and received a yellow voting card. If you are a shareholder who is not voting you should have received a blue card. If you are a non-shareholder you will have received a red card.

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

Blue cardholders will be able to ask questions but not vote.

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

For the benefit of all attendees at this meeting and those on webcast 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 Group's 2014 Annual Report, the adoption of the Remuneration Report and the election of Directors.

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I am pleased to welcome 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, including our Suppliers.

Before I start let me introduce my fellow Directors, Max Roberts, Richard Parbery, Richard Platts, Peter Margin, Joy Linton, Jeff Odgers and Rick Cross. We also have with us Steve Bourke representing our auditors PricewaterhouseCoopers and our legal counsel David Ferguson from Addisons and Tim Faulkner and Nick Dobromilsky from our corporate advisors Kidder Williams.

Are there any apologies?

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Ladies and Gentlemen,

The 2014 year, will be remembered as a significant year in the Australian dairy industry and a very successful one for Bega Cheese. It was a year where the industry found itself featured prominently in the regional, metropolitan and financial press. It was a year where global interest was ignited in the Australian dairy industry and a year where global dairy market improvements delivered significant farm gate milk price improvement to farmers.

The 2014 financial year for Bega Cheese was one which reflected the strength and discipline of the business. While the Warrnambool Cheese and Butter bid (which I will talk more about later) was often the subject of much media coverage, the underlying business remained focused with a strong financial performance from continued investment and business development in our key business platforms.

In reviewing the financial performance of the business, it is appropriate to discuss the overall results and the normalised result, separating the impact of the two major strategic initiatives from last year being the Warrnambool Cheese and Butter bid and the cost of our Milk Sustainability and Growth Program.

Both the overall profit and normalised profit were record results for Bega Cheese.

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I will not dwell on this slide for too long but there are some very noteworthy numbers here reflecting a strong business performance and corporate activity.

When compared with the FY2013 results and taking into account the outcome of corporate activity, these are a very healthy set of numbers. A 6.5% growth in revenue to almost \$1.1 billion largely reflects improvements in global dairy commodity markets and growth in our nutritional business. Clearly the significant growth in EBITDA, profit before and after tax and EPS are very impressive but do include the proceeds of the Warrnambool Cheese and Butter takeover bid. The \$99 million dollar cash inflow to the business from the sale of Bega Cheese's, WCB stake has delivered a balance sheet which has no net debt, and \$8 million net cash.

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It is great to have a strong balance sheet coming from a disciplined and well planned piece of corporate activity. However, I believe it is more important to reflect on the ongoing performance of the core business. I congratulate Aidan and his team for a record normalised profit performance which reflects the strengths of our business model and the knowledge and experience that combines to deliver growth and performance.

Our normalised result of an EBITDA growth of 6.7% and revenue growth of 6.5% reflects our expectations of the business. We were pleased to see EPS grow by 15.1% and total dividend by 13.3%.

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There are many things to talk about in the 2014 financial year. First, let me make some comments about the corporate activities of the company in the financial year. I will begin with Warrnambool Cheese and Butter investment and takeover bid.

We launched a bid for WCB in September 2013, and said at the time, that we believed that value for shareholders and dairy farmers alike could be created by the bringing together of Warrnambool Cheese and Butter and Bega Cheese. Our bid was structured to offer cash and Bega Cheese shares to WCB shareholders allowing them to continue to participate in the future of the Australian dairy industry through ownership of the merged group.

History tells us that this was to become one of the most highly contested and complex bids in recent times. As I said earlier, it also highlighted the value and international interest in Australian dairy assets.

I would comment that Bega Cheese remained disciplined throughout the process, changing our bid only once, successfully navigating through the various regulators associated with the bid and being very deliberate and controlled with each strategic position we took.

It is fair to say there came a point in the bidding process when we concluded that more value would be created for Bega Cheese by realising the value of our investment, strengthening our balance sheet and pursuing other growth opportunities for our business.

We continue to argue that consolidation in the industry has the opportunity to create value. However consolidation should not be at any price and there is a point where there is a concern that rather than build value, we put existing value at risk.

The Board therefore made the decision to sell Bega Cheese's shareholding in WCB receiving \$99 million cash, generating a profit of \$66 million before transaction costs and a profit after tax of \$44 million. The bidding war for WCB led to a market re-rating of Bega Cheese itself with the increases in the WCB share price being reflected in increases in the Bega Cheese share price.

Bega's share price move from \$2.58 as at 30 June 2013 to \$4.87 as at 30 June 2014 and that price has been sustained. The increase share price and dividends in 2014 saw a total shareholder return of 92%.

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The interest generated by the WCB takeover highlighted the longer term opportunity in food and agriculture that is now increasingly being identified not only by business and the markets but also governments around the world.

A vital part of responding to opportunities in the market is having a reliable and sustainable supply chain and this led to our second corporate initiative for 2014. Bega Cheese needs a sustainable and growing milk supply and to that end, the company announced a \$25 million program to encourage sustainable farm practices and supply growth from our farmer suppliers.

The sustainability part of the program involves the farmers participating in an audit of farm practices including resources management, environmental sustainability, animal health, occupational health and safety and a number of other criteria. The program identifies opportunities for change and puts in place a three year plan for improvement. Suppliers participating in the three year program receive an upfront payment of three cents per litre. The program allows the Group to give an additional level of assurance to our customers and also positions us “ahead of the curve” in our expectation that farm accreditation and farm practices will continue to become increasingly important to our customers. A reliable, sustainable supply committed to a three year supply program is something that we believe is well worth investing in, at the close of the financial year 60% of our suppliers had signed up and the company had invested some \$11 million. I am pleased to report that now over 90% of our supply base are participating in the program, not only positioning ourselves for changes in the market but also securing our supply.

It has been well documented that Australia’s milk supply has decreased from 12 billion litres a little over 10 years ago to 9 billion litres today. While there has been much discussion about the reasons for this, the company believes the important thing is to look to the future. This is why we combined our sustainability program with a growth program, which sees farmers who wish to participate applying to the company for support for on farm growth projects that will deliver 20% growth over the next three years which reflects the projected milk requirements for the company in that period.

Eligible suppliers can receive 2cpl for a qualifying project and our expected overall cost is included in the budgeted \$25 million. There has been a good response to the growth component of the program and we are delighted to see momentum and the opportunity for milk growth being generated amongst our farmers.

SLIDE 9 (infrastructure products and customers)

Turning to more operational matters of which CEO Aidan Coleman will go into more detail in his report.

The group’s focus on value added dairy products and long term customer relationships remains. We continue to invest in our three key business platforms of consumer packaged goods, dairy ingredients and nutritionals.

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We are very proud of our integrated manufacturing and value added infrastructure and have a strong track record of investment, which ensures that our facilities can meet our customers needs.

This year our capital expenditure of some \$28 million included investment in;

- A new infant nutritional blending and canning plant at Derrimut with a capacity of approximately 16,000 tonnes.
- Expansion of our lactoferrin facility at Tatura which makes us one of the lactoferrin producers in the world.
- Increased cheddar cheese manufacturing at Coburg to 18,000 tonnes.
- Adding flexibility to our drying capacities to create new whey drying capacity at Tatura.

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Our customer base and long term customer relationships remain extremely important to us we are very proud of our many business relationships which include;

Global dairy giants, Fonterra, Mondelez (Kraft), Mead Johnson, Australian retailers, particularly Coles and ALDI, Australian customer such as Bellamy's organics, International customers such as Snow Brand Japan, Lacto Japan and Ingredia.

Of course while we are delighted with our long term relationships and work closely with our customers to create value we remain alert to new opportunities.

We were very pleased to announce a supply agreement with the large Chinese retailer Chongqing General Trading Group.

And I could go on... needless to say our focus on meeting our customers' ever changing needs and building long term relations remains.

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Ladies and Gentlemen I would now like to comment on our strategic focus and a good place to start is always the balance sheet.

At the close of the FY14 year the company had a very strong balance sheet with total assets of \$549 million including some \$184 million in inventory slightly up on the previous year due to the increased value of commodities and a higher level of nutritional ingredients as a consequence of the commissioning of our blending and canning facility.

A net debt or more correctly a net cash position of \$8 million delivers a very strong balance sheet positioning us well for further growth both organically and through acquisition.

We have identified many internal growth and business improvement opportunities for the company.

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With regard to strategic priorities in the business we will continue to invest in:

- Growing our three key business platforms
- Growing infant formula and child nutritional platforms
- Extracting more value from existing milk components
- Sustainability and growth of milk supply
- Investigating value creating rationalisation opportunities

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In addition to the investments and priorities mentioned on the previous slide, I was very pleased to announce at our results conference that the company will create and invest in a new platform in the area of Bio Nutrients. We believe our expertise in dairy nutritionals such as infant formula and lactoferrin can be expanded and built upon to include dairy and non-dairy nutritional products. We are in the process of creating a team which will focus on;

- Developing a new science based innovation platform
- Dairy and non-dairy micro nutrients
- Leverage off existing knowledge and capabilities
- Reviewing global knowledge and capacities

We see the bio-nutrient platform as a natural extension of the business

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Ladies and gentlemen it has been well documented that in the last 6 months global dairy commodity prices have fallen by approximately 45%. The reasons for the fall include a current over supply of dairy commodities, increases in production in all major global dairy exporting regions and the uncertainty and effect of Russian sanctions. While this is of concern, it is a territory we have experienced before. Strong competition for milk in Australia has meant that the global downturns to some extent have had to be absorbed by dairy companies rather than being reflected in farm gate milk price. The current downturn and disconnect between the market and farm gate milk price need to be viewed in the context of the cyclical nature of global dairy commodities. Our view remains that there is strong underlying demand for dairy products particularly in Asia, there is a long term projected shortage of supply and Australia and more specifically Bega Cheese are well positioned to benefit from that demand.

Bega Cheese continues to have an excellent base for growth with its existing and new capacities, a more stable Milk Sustainability and Growth Programs that create the environment for long term investment and growth for our dairy farmer suppliers, and we do expect the market to begin to recover later in the financial year.

As shareholders would be aware Bega Cheese is not completely exposed to global commodity prices and has long invested in business strategy that has largely insulated the company from the extremes of commodity cycles. While our business model continues to create value and is very robust, the depth of the commodity price falls will significantly offset the improved returns we are receiving from a number of the business initiatives that have been implemented over recent years.

While it is relatively early in the year and market improvement may exceed our current expectation, profit growth in the FY2015 year will present a significant challenge. At this point in time we believe both revenue and profit after tax for the normalised FY2015 year will be broadly in line with the normalised FY2014 year. With much of the impact of the significant decrease in global commodity prices being felt in the first half of the year.

I continue to remain optimistic about the long term financial performance of Bega Cheese. We recently announced a high value whey protein project which is in the final stages of development, the non-commodity exposed areas of our business continue to grow and perform at expectation and we have a very strong balance sheet to support expansion.

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I am now very pleased to hand over to CEO Aidan Coleman to discuss the business performance in FY2014 in more detail. His skills and experience ensure that there is a safe pair of hands guiding the business through FY2015.

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Thank you Barry

Good morning Ladies and Gentlemen

It is a pleasure to again deliver this address to shareholders of Bega Cheese Limited at this Annual General Meeting.

In FY2014 the company continued its positive performance trend. In a period when substantial corporate activity was undertaken by the company it is pleasing to confirm that the core business generated further year-on-year growth in sales revenue and profitability.

It is worthwhile reiterating some of the key messages that our Executive Chairman has made.

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- Achieved normalised sales revenue of \$1.07 billion
- Generated a normalised after tax profit of \$29.8 million (excluding WCB shares and Milk Sustainability and Growth payments)
- Production volumes exceeded 208,000 tonnes in line with prior year
- Generated a total shareholder return of 187% for the 3 financial years 2011-2014

In FY2014 we saw many fundamental dairy commodities peak at record global price levels before dropping back rapidly in the latter part of FY2014 and into FY2015. This was led by whole milk and skim milk powders, on the back of high demand from China. However other commodities such as cheddar cheese lagged behind milk powder based returns for the first half of FY2014. Despite this disparity in product return the company was able to generate record levels of sales revenue and profitability, while also paying a leading milk price to its farmer suppliers, due to the diversified commercial platforms upon which it operates.

Our commercial structure continued to be based on the same general business activities as in the prior year which can be summarised as:

- Nutritionals and infant formula
- Domestic and international cut, pack and processing of packaged and food service products (FMCG)
- Core dairy ingredients including cream cheese

Throughout the last year we have explored the opportunity for the company to grow by evolving more extensively into the extraction and purification of minor bio-nutrients in milk. Planning has subsequently commenced to develop this as a further commercial platform for the business.

We again generated further growth in our infant formula and nutritionals business reflecting continued expansion of these activities in China and South East Asia as well as the growth of several of our Australian based customers who export to Asia. It is appropriate to congratulate Bellamy's Australia Limited for their successful listing on the Australian Securities Exchange in August this year.

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During the year we constructed and commissioned a new blending and packing facility in Melbourne in order to support our evolution from the supply of bulk nutritional products to retail consumer cans of infant formula.

This strategic investment aligns with the increasing need to supply consumers in various Asian markets with fully produced and packaged nutritional products from Australia whereby the quality is sealed in the can at source here in Australia. This provides consumers with utmost confidence in the integrity of the product, reflecting Australia's strong bio-security controls and our reputation for advanced manufacturing practices.

The Derrimut canning facility came on stream in March this year and its approval to supply China occurred in July following the extensive approval processes that China undertook globally during late FY2014 for all dairy and nutritional exporters into that country. We would also like to thank the Certificate and Accreditation Administration of the Peoples Republic of China, the Australian Department of Agriculture, Fisheries and Forestry, together with our own resources, who all worked co-operatively and diligently to confirm the approval of the Derrimut facility for product exports to China.

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In FY2014 we generated solid performance in the domestic and international consumer packaged goods business with an increase in total sales revenue. We continue to experience overall volume growth from our major customers. These include Fonterra, Mondelez (formerly Kraft), Coles and ALDI Supermarkets. Our international consumer/foodservice business grew by 11% as a result of focussing further resources on the development of our markets in Asia and the Middle East. A key aspect of our food service growth in China and South East Asia has been the success of our chef led selling program whereby our own culinary resources work with prospective customers to develop recipes or advise them on uses of our products in food service and bakeries applications.

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It is worthwhile noting that our strategy to develop more of our sales base in consumer and foodservice channels is working effectively with approximately 65% of our revenue now being generated from value-added non-bulk formats across the business including our cheese contract packing and processing business.

A core part of our packaged goods revenue relates to the Bega brand. In the Australian market Bega continued to be the number retail cheese brand while international distribution of the Bega brand has continued to expand and it is available in more than 40 countries. Total Bega branded sales, including Australia, now exceed \$250 million. While the Bega brand now includes cheddar, processed, mozzarella and cream cheese as well as butter, it is also being leveraged into new, related, dairy categories such as UHT milk. In September 2014 we reached agreement with the major Chinese retailer Chongqing General Trading Group, to launch Bega branded UHT milk into the Chinese market. We will also have a corresponding launch in Australia.

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Manufacturing

Total production volumes in FY2014 were 208,120 tonnes. This was down 0.9% on the prior year. This reflected a drop in milk intake as well as evolving our product mix towards lower volume higher value products.

Cheese production at Lagoon Street in Bega and Coburg in Melbourne produced table grade cheddar for use in the Bega brand as well as for several other brands that we pack under contract. The Ridge Street and Strathmerton FMCG packing operations both performed well throughout the year with continued efficiency gains being made at these sites. Tatura Milk continued to focus on nutritional powders, cream cheese, and milk powders. In addition, Tatura benefited from investments in new Demin40 whey powder production capability as well as expanded lactoferrin extraction capacity to meet the growth in demand for this product.

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In FY2014 we were further encouraged by the ongoing uplift in company-wide awareness of safety as an integral component of our work culture. It is indeed confronting to attend a meeting where a manager uses the terminology “we injured someone today” and this reference takes the matter from being a statistic to being very real. As a consequence it is this type of realisation that has helped to generate the step change in our progress with safety. Over the last three years we have achieved a 40% reduction in the lost time injury frequency rate.

At the time of writing this address it is very pleasing to observe that our lost time injury frequency rate for the past six months was down to 2.4 which is significantly below equivalent industry standards.

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International dairy commodity prices rose significantly over the year, however these have subsequently declined by more than 40% since January 2014. While the company’s product mix did not allow it to fully exploit the extreme upside of record milk powder prices we were able to optimise our milk pool and maintain our competitive position as we balanced production of milk powders, milk protein concentrates, lactoferrin, cheddar and cream cheese and bulk cream products to meet customer requirements. We consider that our business model places us in a better position than many competitors to respond to the subsequent drop in global milk powder prices occurring in this current year.

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Strategy

Towards the end of FY2014 we commenced the process to refresh our strategic plan out to FY2020. Our core product focus will continue to be centred on cheese products, whey products and nutritional products. We have also identified the opportunity to extract Bio-nutrients from our milk solids streams to develop a new commercial platform based around the growing demand for these products in a wide range of nutritional. We are also commencing a capital investment program to ensure that our high volume cheese cut, pack and process operations continue to be highly competitive. The commercial focus of our existing business platforms will continue to be centred on Australia and Asia, the latter region providing a significant component of the world’s growth in dairy demand.

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Finally I would like to recognise and thank all of the staff of Bega Cheese Group. We now employ close to 1,700 people across six sites in NSW and Victoria as well as our farm services teams based in these states. There is a passion for the business at every level of the company and we have a very real link to the rural communities in which we largely operate. It is this passion from our employees that makes Bega Cheese Limited the great success it is today.

As an industry we are currently facing major global volatility in dairy commodity returns. This situation is not unfamiliar to the directors and leadership team at Bega and is an underlying reason for the development of a broader value added strategy that can withstand such volatility. While we expect the current year to be a challenging one, we remain confident that the overall strategy we are pursuing is correct and will generate strong, steady operating results for the future.

Thank you

Now I will pass back to Barry

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Barry back at podium

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Questions

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Formalities and Voting

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Remuneration

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Remuneration Proxies

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Election of Directors

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Richard Parbery

Before we proceed I would like to inform the meeting the following proxies in respect to Richard's re-election.

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

Moved

Seconded

Any discussion

All those in favour.

All those against

Motion passed, congratulations Richard.

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Peter Margin

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

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

Moved

Seconded

Any discussion

All those in favour.

All those against

Motion passed, congratulations Peter.

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Joy Linton

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

Can someone please move that Ms Linton be re-elected as a Director.

Moved

Seconded

Any discussion

All those in favour.

All those against

Motion passed, congratulations Joy.

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

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Disclaimer