



PROSPECTUS

Bega Cheese Limited

ACN 008 358 503



Lead Manager and Bookrunner

CommonwealthBank



Co-Manager

Austock Securities

Corporate Adviser

Kidder
Williams Limited



Bega Valley

Bega
SINCE
1899

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Important Information

General

This Prospectus is dated 18 July 2011 and was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus.

The Offer is made through this Prospectus.

It is important that you read this Prospectus carefully and in full before deciding to subscribe for Shares in the Company. In particular, you should consider the risk factors that could affect the financial performance of the Company in light of your personal circumstances (including financial and taxation issues).

Defined Terms

Some of the terms used in this Prospectus have defined meanings. These are capitalised and are defined in section 11 of this Prospectus. Unless otherwise specified, a reference to a monetary amount is a reference to that amount in Australian dollars and a reference to a time is a reference to Australian Eastern Standard Time (AEST).

Investment Advice

This Prospectus does not provide investment advice and has been prepared without taking account of your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for Shares under this Prospectus.

Expiry Date

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Foreign Jurisdictions

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify Shares or to otherwise permit a public offer of Shares outside Australia and New Zealand.

Electronic Prospectus

The Company proposes to make this Prospectus available on its website www.begacheese.com.au

Any person accessing the electronic version of this Prospectus for the purpose of lodging an Application Form for Shares must be an Australian or New Zealand resident and must only access the information from within Australia and New Zealand. Shares will only be issued under the electronic version of the Prospectus on receipt of an Application Form issued together with the electronic version of this Prospectus. Persons who access the electronic version of the Prospectus should ensure they download and consider the full Prospectus. No person should pass onto any other person an Application Form unless it is attached to or accompanies a paper version of the Prospectus or a complete and unaltered version of this Prospectus.

The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus, which should form the basis of your investment decision.

Disclaimer

You should only rely on information contained in this Prospectus. No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company or the Directors.

Exposure Period

The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of this Prospectus. This period is known as the Exposure Period. The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds.

Forward Looking Statements

This Prospectus may contain forward looking statements which have not been based solely on historical facts but on the Company's expectations about future events and results. You should consider that as such statements relate to future matters they are subject to various inherent risks, uncertainties and assumptions that could cause actual results or events to differ materially from expectations described in the forward looking statement. Neither the Company, the Directors, nor any other person named, with their consent, in this Prospectus can assure you that any forward looking statement or implied result will be achieved.

Privacy

By completing the Application Form accompanying this Prospectus, Applicants will be providing personal information to the Company (directly or via the Share Registry), the Lead Manager, Brokers involved in the Offer, agents, contractors and third party service providers ("Collecting Parties"). The Privacy Act 1988 (Cth) governs the use of a person's personal information and sets out principles governing the ways in which organisations should treat personal information. The personal information that the Collecting Parties collect from investors on the Application Form is used to evaluate Applications, and in the case of successful Applications, to provide services and appropriate administration in relation to the Applicant's security holdings in the Company. If the Collecting Parties are obliged to do so by law, Applicants' personal information will be passed on to other parties strictly in accordance with legal requirements. Once personal information is no longer needed for our records, the Collecting Parties will destroy or de-identify it.

By submitting an Application Form, each Applicant agrees that the Collecting Parties may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company, the Lead Managers, Brokers and their related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers and to the ASX and other regulatory authorities.

If an Applicant becomes a security holder, the Corporations Act requires that the Company includes information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a security holder. Information contained in the Company's registers is also used to facilitate dividend and distribution payments and corporate communications (including the Company's financial results, annual report and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Collecting Parties (as relevant) may not be able to accept or process your Application.

An Applicant has a right to gain access to the information that the Collecting Parties hold about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the relevant Collecting Party's registered office. Such requests to the Company and the Share Registry should be directed to:

Link Market Services Limited
Level 12
680 George St
Sydney NSW 2000
1300 554 474.

Photographs and diagrams

Photographs used in this prospectus should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown are owned by Bega Cheese Group. Diagrams used in this Prospectus are illustrative only and may be not be drawn to scale.

This is an important document that should be read in its entirety before making any investment decision. You should obtain professional investment advice if you have questions about any of the matters contained in this Prospectus.

Key Information

Dates

Date of Prospectus	18 July 2011
Opening Date of the Offer	26 July 2011
Closing Date of the Offer	16 August 2011 at 5.00pm
Settlement of the Offer	22 August 2011
Expected Allotment Date	23 August 2011
Despatch of Holding Statements	24 August 2011
Commencement of trading	29 August 2011

Other than the date of this Prospectus, the above dates are subject to change and are indicative only. Unless otherwise indicated, all times are Australian Eastern Standard Time. The Company (in consultation with the Lead Manager) reserves the right to vary the dates and times of the Offer, including to close the Offer early or to accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Broker Firm Applicants should contact their Broker for more information. Investors are encouraged to submit their Applications as soon as possible.

Offer Statistics

Offer Price	\$2.00
Total number of Shares available under the Offer	18,350,000
Total number of Shares on issue on completion of the Offer¹	127,026,928
Total proceeds from the Offer¹	\$35,000,000
Indicative market capitalisation¹	\$254,054,000
Pro forma net debt² (excluding 30% of TMI not owned by Bega Cheese)	\$94,601,000
Indicative enterprise value³	\$348,655,000
Enterprise value/Pro forma EBITDA (excluding 30% of TMI not owned by Bega Cheese)^{1, 4}	7.5x
Price/Pro forma earnings per Share¹	16.9x

¹ Assumes 17,500,000 Shares issued under the Institutional Offer, Preferential Offer, Broker Firm Offer and CBA Retail Offer and 850,000 shares issued under the Employee Loyalty Offer.

² As at 26 December 2010. Refer to section 7 for further information.

³ Indicative enterprise value equals indicative market capitalisation plus pro forma net debt (as defined above).

⁴ Using pro forma net debt as at 26 December 2010.

Forecast Financial Information for FY2011¹

Pro forma EBITDA¹	\$53,425,000
Pro forma EBITDA² excluding 30% of TMI EBITDA	\$46,610,000
Pro forma earnings per Share^{3, 4}	\$0.12

¹ Refer to section 7 for information on the pro forma adjustments made to derive the pro forma FY2011 Forecast.

² Earnings before interest, tax, depreciation and amortisation on a pro forma basis adjusted to exclude the 30% of TMI not owned by Bega Cheese.

³ Actual earnings per Share for FY2011 is expected to differ from the pro forma EPS due to several adjustments. Refer to section 7.

⁴ Assumes 17,500,000 Shares issued under the Institutional Offer, Preferential Offer, Broker Firm Offer and CBA Retail Offer and 850,000 Shares issued under the Employee Loyalty Offer.

Letter from the Chairman

18 July 2011

Dear Investor,



On behalf of the Board, it gives me great pleasure to invite you to become a Shareholder in Bega Cheese Limited.

Bega Cheese is one of Australia's rural success stories. With a history dating back to 1899 as a co-operative in the southern New South Wales town of Bega, it now operates five facilities across New South Wales and Victoria, manufacturing nearly 200,000 tonnes of dairy products per annum. The Company has made a number of significant acquisitions in recent years, during which time Bega Cheese Group revenue has grown to a forecast \$942 million for FY2011.

In addition to our strong manufacturing base, we are proud of the development and value of the Bega brand which is one of the most widely recognised and respected food brands in the country. It is the number one cheese brand in Australia with more than 60 million Bega branded products sold throughout Australia each year.

The Bega Cheese Group has a unique business model, with a diversified product and operational mix comprising of processing, manufacturing, cutting and packaging traditional cheese products, as well as the manufacture of other high value dairy products sold in the Australian and international market place.

Bega Cheese has substantial "business to business" operations supplying products such as cheddar, processed, mozzarella and cream cheeses, milk powders, infant formulas and nutraceuticals direct to domestic and international food companies. This model provides both consistency for the underlying revenue base and exposure to high-growth expanding Asian markets.

The strength of Bega Cheese, particularly in recent times has been its ability to embrace changing industry circumstances, develop new business models and recognise opportunities to create value. This has all been done in a period of major rationalisation of the dairy industry and climate and market challenges for our Farmer Suppliers.

Bega Cheese is now focused on organic growth both domestically and internationally through increasing plant utilisation, continued product development and innovation. Importantly, this IPO also positions the Company to participate in industry rationalisation which is expected to be part of future growth.

One of the key strengths of Bega Cheese has been its stable Board and management team which has been responsible for the last decade of achievement. The Board is pleased that Mr Peter Margin, a former CEO of National Foods and Goodman Fielder has joined the Board as an independent non-executive Director. Following the IPO we expect to appoint an additional independent non-executive Director.

Through the IPO, Bega Cheese will issue up to 17.5 million Shares to raise up to \$35 million. These funds will be used primarily to reduce interest bearing debt thereby improving the Company's gearing levels and interest cover ratios. In addition, there will be an issue of approximately 0.85 million free Shares to employees who meet certain period of service and other criteria.

This Prospectus sets out detailed information regarding the Offer and the Bega Cheese Group, including information regarding the key risks associated with investing in Bega Cheese. These risks include the Group's background as a co-operative business, milk supply and pricing risk, international dairy commodity pricing and foreign exchange risk, reliance on a major customer and environmental risk. See section 5 of the Prospectus for further information on these and other risks. I encourage you to read the full Prospectus carefully.

Bega Cheese has always focused on delivering strong and reliable returns to its Shareholders. We look forward to demonstrating that ability in the coming years to a wider Shareholder base.

On behalf of the Board, I look forward to welcoming you as a Shareholder.

Yours sincerely

A handwritten signature in dark ink, appearing to read "B. Irvin", followed by a long, wavy horizontal line.

Barry Irvin
Executive Chairman

1. Investment Overview



Bega Valley.

1. Investment Overview*

1.1 Business overview

Bega Cheese was established over 110 years ago as The Bega Co-operative Creamery Company. The Bega brand is Australia's number one cheese brand with 60 million Bega branded products sold throughout the country each year.

Bega Cheese Group operates five dairy manufacturing sites across NSW and Victoria manufacturing and value adding approximately 186,000 tonnes of dairy products in the FY2011F year. Bulk cheddar cheese, string cheese, and whey powder are produced at Lagoon Street, Bega and bulk cheddar and mozzarella cheese are produced at Coburg, Victoria. Milk powders, cream cheese and nutritionals are produced at Tatura. The Ridge St, Bega and Strathmerton, Victoria facilities are dedicated to the cutting, packaging and processing of bulk cheese products into retail packs.

The Group's business can be categorised as follows:

Core dairy products manufacturing:

- a. cheddar, cream and mozzarella cheeses, milk powders, butter and cream.

Fast Moving Consumer Goods ("FMCG") business focused on cheese packaging and processing, including products under the Bega brand:

- a. cutting, packaging and processing of cheese products into retail packs for customers including Fonterra, Kraft Foods and ALDI Stores;
- b. licensing Fonterra, in return for a royalty, the exclusive right to use the Bega brand trade marks in Australia on natural and processed cheddar cheese, string cheese and butter products; and
- c. direct marketing and sales of Bega products internationally.

Nutritional food products manufacturing:

- a. infant formula; and
- b. milk biologics such as lactoferrin and colostrum.

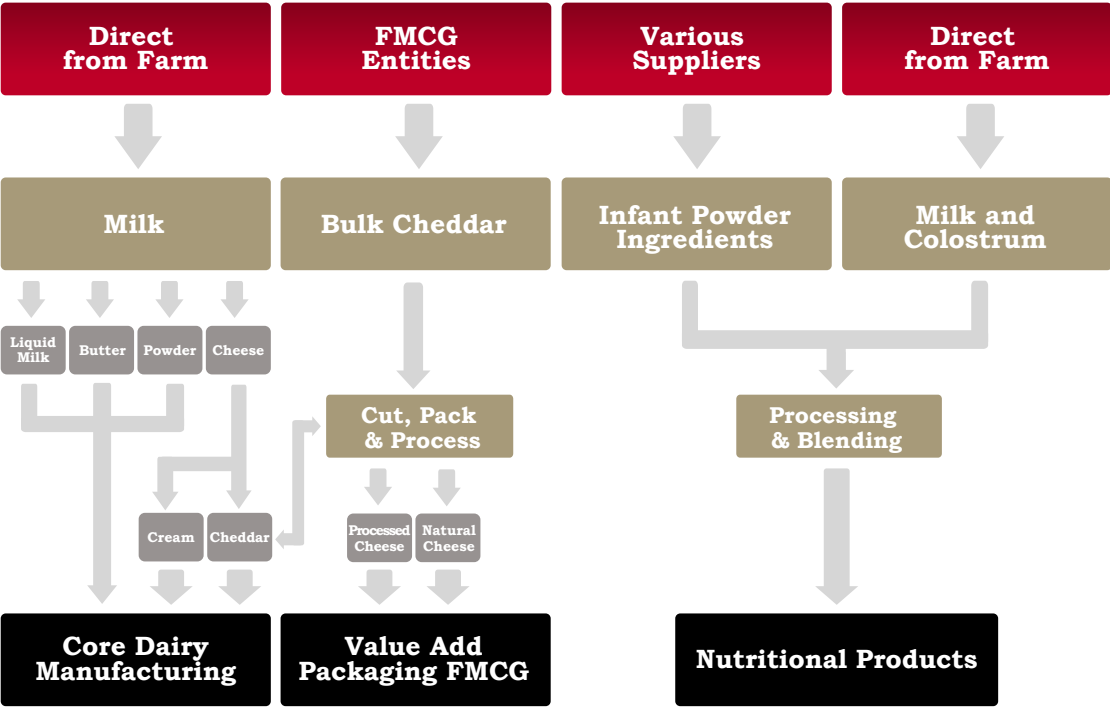
Bega Cheese also has several assets and interests that could be defined as strategic investments outside of its core manufacturing businesses. These assets and interests include a 15 percent investment in WCB and 25 percent interest in CCFA.

The following table summarises the recent production levels and the Group's assessment of reasonable capacity levels in tonnes per annum (assuming traditional product mix). One of the potential growth areas is the Group's investment in capacity and the ability to benefit from higher utilisation of its existing facilities.

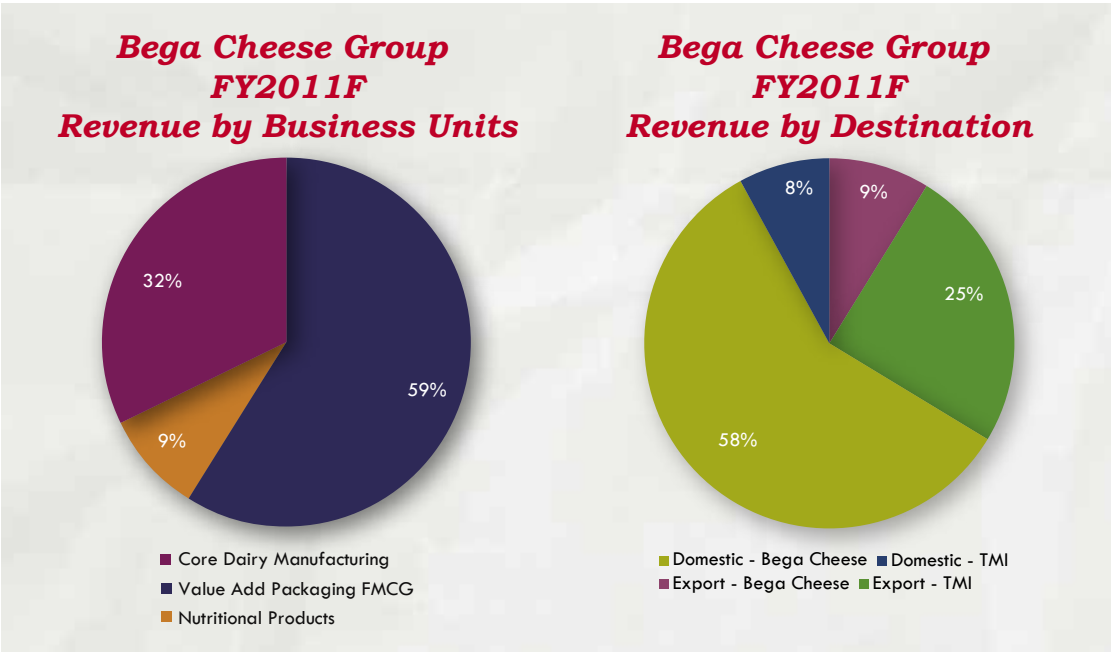
Facility	Production FY2010(t)	Production FY2011F(t)	Capacity(t)
Lagoon St	23,349	23,933	42,000
Coburg	5,799	4,773	10,000
Ridge St	61,626	61,358	75,000
Strathmerton	29,422	32,546	100,000
Tatura	66,896	62,969	94,000
Total	187,092	185,579	321,000

* As noted in the Important Information section on page 4, some of the terms used in this Prospectus have defined meanings. These terms are capitalised and are defined in section 11 of this Prospectus.

The following table provides a schematic overview from the receipt of milk and other raw materials and the processing by the Bega Cheese business.



The size of boxes and arrows in the above chart does not reflect the relative size of each business.



Source: Bega Cheese

Source: Bega Cheese

1.2 Reasons for the Offer and future plans

The purpose of the Offer is to achieve a listing on ASX and improve access to capital markets to provide Bega Cheese with additional financial flexibility to pursue growth and industry rationalisation opportunities while providing a transparent market for valuing Shares. As there is no immediate committed growth opportunity requiring cash funding, all net proceeds will be applied to reduce existing financing facilities.

Following the IPO, new Shareholders will hold about 15 percent of the total Shares on issue.

Bega Cheese is focused on organic growth both domestically and internationally through increasing plant utilisation, continued product development and innovation. Importantly, this IPO also positions the Company to participate in industry rationalisation that is expected to be part of future growth. The following section contains information about the proposed full Merger with TMI which will be the immediate corporate priority after the IPO.

1.3 Proposed full Merger with TMI

In April 2007, Bega Cheese acquired a 70 percent controlling interest in TMI, a successful dairy products business with a long history of operating in Victoria's Goulburn Valley. As soon as practicable after the IPO, Bega Cheese intends to proceed to acquire the remaining 30 percent interest in TMI. This is anticipated to be implemented by way of the issue of Shares to TMI Redeemable Preference Shareholders in exchange for all of the TMI shares that Bega Cheese does not currently own.

The reason for acquiring the remaining 30 percent is to enable TMI to be fully integrated with Bega Cheese from both an operational and financial perspective. This will enable Bega Cheese to fully combine the balance sheet and cash flow strengths of both entities.

In addition, the Merger will enable TMI Redeemable Preference Shareholders to convert their shares to Bega Cheese Shares which will be tradable on ASX and allow them to participate in the growth and dividends of the Group.

An agreement has been signed between Bega Cheese and TMI that provides the basis for a formal merger implementation agreement to be executed following the IPO. However as outlined in section 9.3, certain details of the Merger including the number of Shares to be issued as consideration in exchange for TMI RPS are yet to be finalised.

While the issue of Shares to TMI Redeemable Preference Shareholders as a result of the implementation of the Merger will result in a dilution of the proportional holding by each Shareholder, Bega Cheese earnings on an after-tax basis are expected to increase due to the removal of the 30 percent non-controlling interest in TMI. It is the intention of the Board to ensure that the Merger will not be dilutive to Bega Cheese earnings in the first full year following its implementation.

If an appropriate outcome cannot be negotiated, Bega Cheese is under no obligation to proceed with the Merger and will continue operations in their current form.

1.4 Investment highlights

1.4.1 Strong brand

- Highly recognised Australian household brand in both processed and natural cheddar cheese
- Number one cheese brand in Australia
- Fonterra, as the long term licensee of the Bega brand in Australia, is a substantial and experienced consumer foods company
- Products exported to over 40 countries

1.4.2 High quality business model with diversified earnings across businesses and geographies

- Diversified earnings across both the manufacturing and the cutting, packaging and processing of dairy products
- Diversified earnings across a wide variety of dairy products
- Earnings spread across geographic regions with a growing global market presence
- Strong relationships with major FMCG customers whose long term contracts operate on a cost-plus margin basis
- On going royalty income from Australian trade mark licence of the Bega brand

1.4.3 Significant investment in infrastructure to ensure a market leading position in the dairy production sector

- Five plants with well developed technologies including robotics and automated processing lines
- Track record of continual investment in technologies to ensure a high level of production efficiency is maintained
- Unutilised manufacturing capacity at plants allows for efficient increases in levels of production
- Strong commitment to environmental management and sustainability



Selection of Bega branded cheese products.

1.4.4 Strong competitive position

- Operates the two largest cheese cutting, processing and packaging facilities in Australia which, due to the scale of their manufacturing capabilities, provide a competitive advantage
- Skilled and very experienced personnel with the ability to respond quickly to changing customer needs

1.4.5 Track record of securing high quality milk supply from a loyal farmer base

- Strong established long term relationships with dairy farmer suppliers
- Most of the milk used by the Group is sourced directly from farmers who are currently shareholders in either Bega Cheese or TMI
- Multi regional milk pools provide diversity of sourcing and reduce climate risk
- High grade milk supply enables the Group to deliver high quality dairy products

1.4.6 Proven management team with significant experience in the dairy sector

- The Board, led by Executive Chairman Barry Irvin, has significant experience and insights into the dairy industry
- Highly experienced management team led by CEO Aidan Coleman who has 27 years' experience in the international marketing and manufacturing of consumer dairy products and dairy ingredients. Aidan has been part of the Bega Cheese executive management group since 2008
- Loyal employee base and strong culture of delivering excellent customer service
- Strong safety and quality focus

1.4.7 Well positioned for future growth

- Ongoing rationalisation of the domestic and global agricultural and food sectors may provide further opportunities, including the use of unutilised capacities especially at the Ridge St and Strathmerton Facilities
- Continued expansion and innovation of its dairy product range
- Leveraging TMI's strong high quality nutritional products offering
- Proposed Merger with TMI in late 2011 (subject to finalisation of terms and TMI Redeemable Preference Shareholder and court approval)
- Growing global demand for dairy products particularly in the high growth Asian region, where there is a relatively low penetration of dairy products

Bega Cheese Group product summary

Division	Facility	Products
Core dairy manufacturing	Lagoon St (Bega, NSW) Coburg (Vic) Tatura (Vic)	Bulk cheddar Bulk whey and dairy powders Milk protein isolate Bulk, foodservice and retail cream cheese Butter Mozzarella Bulk fresh milk
FMCG (value-add processing)	Ridge St (Bega, NSW) Strathmerton (Vic)	Packaged block and grated cheese Packaged slice natural cheese Individually wrapped cheese slices Processed slices for food service Canned cheese Processed cheese sticks, triangles, spreads String cheese Natural cheese sticks
Nutritional food products	Tatura (Vic)	Infant and children nutritional formula Lactoferrin Hyperimmune Colostrum

1.5 Summary of key risks

The following summarises and explains the key risks associated with the Bega Cheese Group and an investment in Shares. The key risks have been identified having regard to the likelihood of them occurring, their potential impact on the Group and their relevance to investors. A more complete discussion of risk factors is set out in section 5.

1.5.1 Background as a co-operative business

Bega Cheese has a long history as a successful supplier co-operative business. Although it changed its structure in 2008 from a co-operative to an unlisted public company, both shareholding and board control were retained by Farmer Suppliers. Upon the lodgement of this Prospectus, the Constitution will change into a form that complies with ASX Listing Rules. However, it will include a number of features reflecting the co-operative background of Bega Cheese, namely the requirement that the Board will comprise at least four Supplier Directors (out of a maximum of eight) and maximum limits on individual shareholdings in the Company. There are currently five Supplier Directors on the Board (see sections 1.7 and 6.1 for further details of the Directors).

As noted in section 6.4, the Supplier Directors have not been classified as independent within the terms of the ASX Corporate Governance Principles and Recommendations and accordingly, the Company will not comply with ASX Corporate Governance Recommendation 2.1, which provides that a majority of directors should be independent directors, or ASX Corporate Governance Recommendation 2.2, which provides that the chairperson of the board of directors should be an independent director.

The Constitution sets a maximum shareholding limit of 5 percent for the first two years after listing, increasing to 10 percent from the end of the second year until the end of the fifth year, when the limit must be voted on by Shareholders. If the Shareholders approve the continuation of the shareholding limit, it will be 15 percent from the end of year five until the end of year ten, at which time it will cease to apply. The purpose of the shareholding limit is to provide shareholding stability for the Company for a minimum period following its listing on ASX and ensure that a controlling interest can only be acquired with the approval of a special resolution (75 percent vote) of Shareholders. However, the existence of the shareholding limit is unusual for a listed company and may adversely affect the value ascribed to Shares. As noted in section 9.4, if a person acquires Shares in excess of the limit, the right to vote and receive dividends in respect of the excess Shares will be suspended. Further the Constitution contains provisions that allow the Directors to require the sale of the excess Shares.

New Shareholders should also be aware that they will be in a minority compared with the Existing Shareholders. As most of the Existing Shareholders are current or former Farmer Suppliers, it is possible that they may take a different view as to what is in the best interests of the Company and the composition of the Board to some New Shareholders. A summary of the Shares on issue after the Offer is set out in section 2.1 and a table of the current major Shareholders is set out in section 9.9. If the Merger with TMI is completed, additional Farmer Suppliers will become Shareholders.

1.5.2 Milk supply and pricing

Bega Cheese Group relies on ongoing milk supply from its Farmer Suppliers. In turn, the Farmer Suppliers need suitable climatic conditions in order to produce pastures and source grain and hay/fibre to feed their dairy herds. Farmer Suppliers are not under long term supply contracts, and milk prices are usually set and communicated to Farmer Suppliers on an annual basis.

Farmer Suppliers are free to supply alternative buyers if they so wish. The price paid to Farmer Suppliers for their milk is a key factor in being able to attract and retain supply. Milk prices paid are a function of the returns that the Group can achieve for its dairy products. If the Group cannot achieve a return that enables it to be competitive, it may lose supply of milk from its Farmer Suppliers.

To ensure that the milk price paid by the Group is appropriate, the Board has adopted a new milk price policy effective from 1 July 2011. Under its previous structure the Company made additional distributions to Farmer Suppliers in the form of payments based on milk supplied to Bega Cheese. The Company has identified these payments and made appropriate pro forma adjustments to its financial results (see section 7.3.1) as if the new milk pricing policy had been in place since 1 July 2007. The Company confirms that under the new milk pricing policy, Farmer Suppliers will receive a price determined in accordance with that policy and will participate in future distributions of profits on the same basis as all Shareholders.

1.5.3 International dairy commodity prices and foreign exchange risk

Dairy commodity prices fluctuate in accordance with global supply and demand. The market prices of core products of the Group such as cheddar cheese, cream cheese, milk powders and butter are all affected by the global commodities market, and to some extent, even those products not exported but traded within the domestic market are similarly affected. There is risk that a decline in commodity prices may reduce the prices at which the Group is able to sell its products, thereby adversely impacting Group earnings unless input prices for raw materials, including milk, can be adjusted to reflect this change.

Where dairy commodities are sold into export markets the predominant currency is the US dollar. Fluctuations in the Australian dollar as compared to foreign currencies have the potential to adversely impact the revenue and returns of the Bega Cheese Group.

Refer to section 7.5 for information about the sensitivity of changes in selling prices and exchange rates.

1.5.4 Fonterra Product Supply Agreement (FPSA)

Bega Cheese and its major customer Fonterra have been reviewing various aspects of the FPSA for some time and have reached agreement in principle on certain changes to that document. While Bega and Fonterra intend to reflect their agreement in principle in a more detailed, legally binding document to be signed in the future, there is a risk that this will not be achieved. While the existing FPSA would continue to apply in those circumstances, Fonterra is only obliged to source Bega branded products and could potentially reduce the volume of other products that it sources from Bega Cheese.

Further details of the FPSA are set out in section 9.5.1.

1.5.5 Environmental risk

The Bega Cheese Group generates air, noise, odour and waste emissions in the course of its activities. These emissions are regulated by statute, licences and agreements that the Group has to comply with. The Group is also a major energy user and is subject to legislation that requires it to review and seek to reduce its energy usage. The Company is currently assessing the impact of the recently announced carbon tax proposal. Preliminary analysis by the Company indicates that the new tax if implemented as proposed is likely to impact across the supply chain with some costs being passed through to customers and some impact on raw material suppliers. The Company's view is that at this early stage of implementation, it is difficult to quantify the impact but it is unlikely to be materially adverse to the Group's earnings.



Bega branded 'Strong & Bitey' cheese.

1.6 Financial Information

Bega Cheese Group has a history of profitable performance. The dairy industry is generally subject to agricultural and commodity related risks that can impact results. While Bega Cheese's contract manufacturing business protects it from full exposure, the Group is not immune to such risks. For example, in the 2008 financial year, dairy commodity prices were subject to historic highs and helped generate above normal returns. Whereas by contrast, the 2009 financial year earnings were unfavourably impacted by a significant fall in commodity prices which was a consequence of weak global trading conditions following the global financial crisis.

The table below is a summary of the pro forma historical financial performance of the Bega Cheese Group for the three years ended 30 June 2010, together with the pro forma forecast financial performance of the Group for the period ending 30 June 2011.

Summary of operating and financial information

Key Data	Measure	Pro forma Historical FY2008	Pro forma Historical FY2009	Pro forma Historical FY2010	Pro forma Forecast FY2011
Total milk intake¹	million litres	625.1	626.7	615.8	584.5
Total product sold	tonnes	131,329	160,505	168,427	179,756
Revenue	\$ million	701.2	803.6	834.2	942.8
EBITDA	\$ million	56.3	34.6	54.8	53.4
EBITDA as a % of revenue	percent	8.0	4.3	6.6	5.7
Profit before tax	\$ million	36.7	10.0	24.4	25.5 ²
Profit after tax and non-controlling interests³	\$ million				15.0
Pro forma earnings per share^{4,5}	\$				0.12
Gearing ratio³ (net debt/net assets)	percent				47.3
Net assets per share	\$				1.58
EBITDA (excluding 30% of TMI's EBITDA)	\$ million	47.2	33.3	48.0	46.6

¹ Excludes product transfers between Bega Cheese and TMI.

² The statutory profit before tax for FY2011 is forecast to be \$20.7 million. The adjustments made to derive the pro forma forecast for FY2011 are set out in section 7.

³ The FY2011F profit after tax and ratios assumes \$35 million is raised pursuant to the Offer. The gearing ratio and net assets per share are computed after allowing for the 30 percent of TMI not owned by Bega Cheese.

⁴ Actual earnings per Share for FY2011 is expected to differ from the pro forma EPS due to several adjustments. Refer to section 7.

⁵ Assumes 17,500,000 Shares issued under the Institutional Offer, Preferential Offer, Broker Firm Offer and CBA Retail Offer and 850,000 Shares issued under the Employee Loyalty Offer.

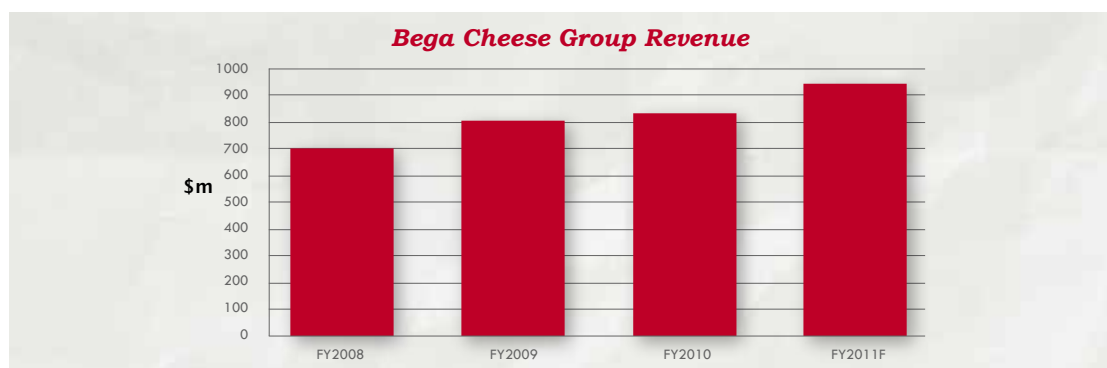
Investors should be aware that the timing and magnitude of events may be different to the assumptions applied by the Directors in preparing the FY2011 Forecast. These differences may have a material beneficial or adverse effect on the actual financial performance and position of the Group. Investors are advised to carefully assess the key assumptions applied by the Directors in preparing the FY2011 Forecast (as set out in section 7.4) and the sensitivity analysis of those key assumptions (as set out in section 7.5).

Following the listing, the tax status of TMI will change. As a result it is expected that the annual tax expense of the Bega Cheese Group will increase to be in line with the corporate tax rate (currently 30 percent). Accordingly, the financial summary of historical information is presented on a pre-tax basis. A pro forma tax expense of 30 percent has been applied for the FY2011 Forecast.

The historical performance of the Group between FY2008 to FY2010 reflects, amongst other things, the following changes to the business:

FY2009 – In October 2008 Bega Cheese acquired a cheese manufacturing site at Coburg, Victoria. In March 2009 Bega Cheese acquired a cheese processing site at Strathmerton, Victoria. These acquisitions further increased the overall revenue and economic activity of the Group.

FY2010 – This year reflected the full year trading results of the two FY2009 acquisitions.



Source: Bega Cheese

1.6.1 FY2012 outlook

As at the date of this Prospectus, Bega Cheese Group management has prepared budgets for the FY2012 year. Due to the uncertainty of such matters as the completion and timing of the Merger, the volatility of exchange rates and international dairy product prices, the Board does not believe that it has a reasonable basis to provide these budgets in this Prospectus.

While Bega Cheese has been managed on a commercial basis, ASX listing is expected to bring a sharper focus on shareholder returns, while still ensuring that market competitive milk prices are paid to Farmer Suppliers.

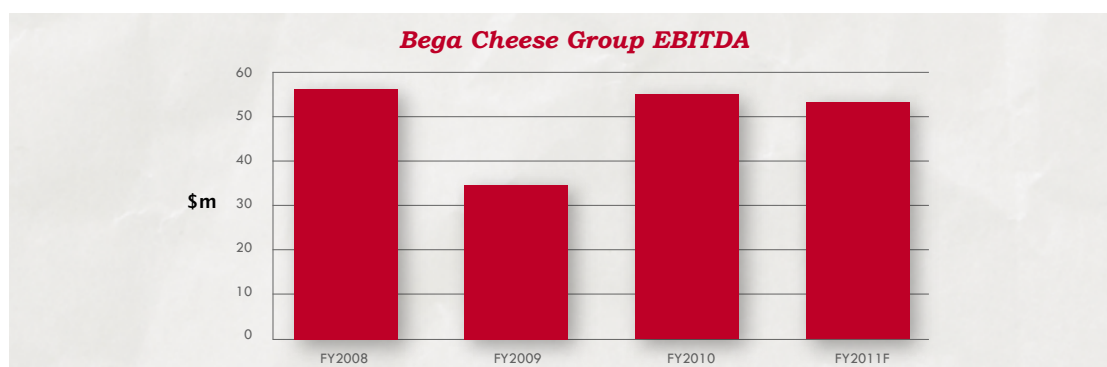
1.6.2 Dividend payment policy

Subject to available profits and the financial position of the Group, it is the Board's intention to pay up to 50 percent of the net profit after tax and non-controlling interests as a dividend for FY2012. It is anticipated that the dividend will be fully franked.

No guarantee can be given about future dividends, or the level of franking or imputation of such dividends, as these matters will depend upon the future profits of the Group, its financial and taxation position, funds retained for capital expenditure and the Directors' views of the appropriate payout ratio at the time.

In respect of the year ending 30 June 2011, the Directors declared a fully franked dividend for Shareholders on the register as at 9 June 2011 of 1.25 cents per share. This dividend was paid on 15 June 2011. Accordingly, New Shares will not be entitled to this dividend.

Refer to section 7 for more detail on the financial position of the Group.



Source: Bega Cheese

1.7 Directors and key managers

As noted in section 1.5.1, the Constitution requires that at least four out of eight Directors (all being Farmer Suppliers) must be Farmer Suppliers. This reflects the co-operative background of Bega Cheese and is unusual for an ASX listed company.

The Board of Bega Cheese has been very stable with five of the current Directors having been in office for a minimum of ten years each. These Directors have overseen the successful growth and development of the Group over the last decade. The Directors are well credentialed and have significant industry and professional experience. This is outlined in the directors' profiles in section 6.1. As part of the IPO, Mr Peter Margin, a former CEO of National Foods Ltd and Goodman Fielder Ltd, has been appointed as an independent Director and will bring his considerable food industry leadership experience to the Group. An additional independent Director, with financial qualifications and experience is expected to be appointed shortly after the IPO.

If the proposed Merger is completed, two TMI Supplier Directors will also be appointed members of the Board for the two years following the Merger. The current Board anticipates that over a period of time the composition of the Board will transition to be evenly comprised of Directors who are Farmer Suppliers and other Directors.

The management team of Bega Cheese is highly experienced and capable. The recently appointed CEO, Mr Aidan Coleman, has been the CEO of TMI since mid-2008 and prior to that held senior roles at Fonterra. His management team is comprised of executives who have significant experience in the dairy industry. Further information regarding management is in section 6.2.

1.8 Interests, benefits and related party transactions

Five of the six current Directors are Farmer Suppliers. Collectively they deliver approximately 2.5 percent of milk acquired by the Group. The terms (including pricing) on which Supplier Directors provide their milk are exactly the same as for other direct Farmer Suppliers in the region in which the Directors operate their dairy farms. Refer to section 4.2 for details of the Group's milk pricing policy.

The five Supplier Directors are also Shareholders of Bega Cheese and collectively will hold just under 10 percent of the Shares in the Company following the IPO. No Director holds more than 4 percent of the Shares currently on issue. Refer to section 9.15 for details of Director share holdings.

The remuneration of Directors is disclosed in section 9.16 and has been set following independent third party advice.



Members of the Apps family, current Bega Cheese Shareholders and Farmer Suppliers.

1.9 Summary of the Offer

Item	Summary	Further information
Who is the issuer of this Prospectus?	Bega Cheese Limited	Section 1
What is being offered and at what price?	Bega Cheese is offering to issue up to 18,350,000 Shares, representing 14.4 percent of the issued share capital of Bega Cheese following the Offer. The Offer Price is \$2.00 per Share except that under the Employee Loyalty Offer, Qualifying Employees will be offered the opportunity to acquire up to a total of 850,000 Shares at no monetary cost. The Offer is to be conducted in Australia and New Zealand. Only residents of Australia or New Zealand are eligible to participate in the Offer. CBA Equities is acting as lead manager to the Offer. The Offer is not underwritten.	Section 2.1
Who is eligible to participate in the Offer?	Retail Offer To participate in the Preferential Offer: You must be an Eligible Shareholder, Eligible Farmer Supplier, Eligible Employee, Eligible Resident or Eligible Person who is an Australia and New Zealand resident. To participate in the Broker Firm Offer: You must be an Australian or New Zealand resident who is a sophisticated or professional investor (within the meaning of Sections 708(8) and 708 (11) of the Corporations Act, respectively) or following lodgement of this prospectus, an Australian resident investor who is not an Institutional Investor and who is offered a firm allocation by their Broker. To participate in the CBA Retail Offer: You must be an Eligible Commonwealth Bank Customer being a person the Lead Manager considers (in its discretion) is a resident of Australia or New Zealand and who is either a Commonwealth Bank customer or may have obtained a Prospectus from a Commonwealth Bank branch, and in each case who is also a Retail Investor. To participate in the Employee Loyalty Offer: Qualifying Employees are entitled to accept the Employee Loyalty Offer. A Qualifying Employee is a person who is a permanent or casual (with at least 3 months service) employee of Bega Cheese as at 5.00pm AEST on 30 June 2011 and who has not resigned at that time. Institutional Offer To participate in the Institutional Offer: The Lead Manager will invite certain institutions in Australia, New Zealand and selected other jurisdictions to participate in the Offer.	Section 2

1.9 Summary of the Offer (cont)

Item	Summary	Further information
What are the key dates of the Offer?	Refer to the Key Information Section for key dates of the Offer.	Key Information
What is the Offer structure?	The Offer consists of the issue of up to 18,350,000 Shares under this Prospectus by way of the: i. Retail Offer (consisting of the Preferential Offer, the Broker Firm Offer, the CBA Retail Offer and the Employee Loyalty Offer); and ii. Institutional Offer.	Section 2.1
How will the proceeds of the Offer be used?	The proceeds of the Offer will be applied to • Reduce debt; and • Pay for the costs of the Offer. As noted in Section 2.2, the repayment of debt is not a matter of urgency.	Sections 2.2 & 7.8
What is the minimum investment size under the Offer?	The minimum Application under the Retail Offer (excluding the Employee Loyalty Offer) is \$2,000. Applications over \$2,000 should be in multiples of \$500. Under the Employee Loyalty Offer, Qualifying Employees will have the opportunity to acquire, for no cash consideration, a minimum of 250 Shares. Institutional Investors will receive or have received information from the Lead Manager in relation to the minimum Application under the Institutional Offer. The Company in consultation with the Lead Manager reserves the right to reject any Application or to allocate a lesser number of Shares than that applied for.	Section 2
Will I be guaranteed a minimum allocation under the Offer?	If you are an Eligible Shareholder, Eligible Farmer Supplier, Eligible Employee, Eligible Resident or Eligible Person, you will receive a preference in respect to a fixed total allocation of Shares. While it is the Company's intention for such persons to receive a minimum allocation of \$2,000 of Shares, it is not in a position to guarantee a minimum allocation under the Offer. If you are a Qualifying Employee, you will be entitled to receive the Shares offered to you under the Employee Loyalty Offer.	Section 2.3
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.	

1.9 Summary of the Offer (cont)

Item	Summary	Further information
What are the tax implications of investing in the Shares?	Shareholders will be subject to Australian tax on dividends and possibly Capital Gains Tax (CGT) on a future disposal. The tax consequences of any investment in Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to investing. The particular taxation consequences arising from participation in the Employee Loyalty Offer are set out in section 9.12 and further information will be included in the Offer sent to Qualifying Employees.	Section 9.13
Where can I find more information?	• Read this Prospectus; • For investment advice contact your stockbroker, solicitor, accountant or other independent professional adviser; • By calling the Bega Cheese Offer Hotline on 1300 365 969 or by visiting www.begacheese.com.au; and/or • By calling the Lead Manager's retail affiliate Commonwealth Securities Limited on 13 15 19 (from within Australia) between 8:00 a.m. and 8:00 p.m. Monday to Friday, for the duration of the Offer Period or by visiting www.commsec.com.au. The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, or incorporated into, this Prospectus.	www.begacheese.com.au www.comsec.com.au



Ridge St Facility cheddar cheese natural slice line.

Bega Cheese - Major Milestones

- 1899** The Bega Co-operative Creamery Company formed.
- 1900** Original butter factory opened.
- 1924** Butter factory built on present Lagoon St site.
- 1944** Name changed to The Bega Co-operative Society Ltd.
- 1983** Bonlac¹ commences marketing Bega branded natural and processed cheese products outside of NSW and the ACT.
- 1994** Commenced exporting cheese to a number of countries.
- 1997** Commenced Capitol Chilled Foods (Australia) Pty Ltd joint venture.
- 1998** Commissioned the cheese cutting, packaging and processing facility at Ridge St, Bega.
- 2001** The Bega brand licensed to Fonterra Brands (Australia) Pty Ltd for use in Australia on cheese and butter, in conjunction with a long term product supply agreement and a major upgrade of the Ridge St Facility.
- 2007** Acquired 70 percent of Tatura Milk Industries Ltd in Northern Victoria.
- 2008** Corporate structure changed from a co-operative to an unlisted public company.
- 2008** Acquired Coburg cheese plant.
- 2009** Acquired Kraft Food's Strathmerton packaging and processing cheese plant.
- 2010** Acquired 15 percent of Warrnambool Cheese and Butter Factory Company Holdings Ltd.
- 2011** Existing Shareholders agree to constitutional changes to permit a listing on ASX.



Bega Co-operative Creamery Company building



Lagoon St Facility



Ridge St Facility



TMI



Strathmerton Facility

¹ In 1983 the Bega cheese brand was licenced to Amalgamated Co-operative Marketers (Australia) Limited (which became Bonlac Foods Limited). Bonlac Foods Limited was subsequently acquired by Fonterra's parent company.



Strathmerton Facility:
Supply chain and logistics.

2. Details of the Offer



Ridge St Facility:
Retail natural slice line.

2. Details of the Offer

2.1 Description of the Offer

The Offer comprises the issue of up to 18,350,000 New Shares by Bega Cheese. Based on the Offer Price of \$2.00 per Share, the gross proceeds from the Offer will be up to \$35 million (including up to 850,000 shares issued pursuant to the Employee Loyalty Offer for no monetary payment). All Shares being offered under this Prospectus will rank equally with each other and will rank equally with Existing Shares.

The Offer comprises:

- The Retail Offer, consisting of:
 - The Preferential Offer to Eligible Shareholders, Eligible Farmer Suppliers, Eligible Employees, Eligible Residents and Eligible Persons;
 - The Broker Firm Offer open to Broker Firm Applicants who have received a firm allocation from their Broker;
 - The CBA Retail Offer open to Eligible Commonwealth Bank Customers; and
 - The Employee Loyalty Offer to Qualifying Employees to apply for Shares for no monetary payment.
- The Institutional Offer, which consists of an invitation to bid for Shares made to certain Institutional Investors in Australia and New Zealand.

If all New Shares are issued then the total number of Shares on issue at listing will be approximately 127,026,928. The table below summarises the Shares on issue before and after the Offer:

	<i>Before the Offer</i>		<i>At completion of the Offer¹</i>	
	Shares	%	Shares	%
Existing Shares	108,676,928	100.0	108,676,928	85.6
New Shares pursuant to the Preferential Offer	-	0.0	5,250,000	4.1
New Shares pursuant to the Employee Loyalty Offer	-	0.0	850,000	0.7
New Shares pursuant to the Broker Firm Offer, CBA Retail Offer and Institutional Offer	-	0.0	12,250,000	9.6
Total	108,676,928	100.0	127,026,928	100.0

¹ Assumes 18.35 million Shares issued under the Offer. At the discretion of the Company, in consultation with the Lead Manager, the allocated Shares not applied for in the Preferential Offer will be released to the Retail Offer (excluding the Preferential Offer) and/or the Institutional Offer.

2.2 Purpose of the Offer and use of proceeds

The purpose of the Offer is to achieve a listing on ASX and improve access to capital markets to provide Bega Cheese with additional financial flexibility to pursue growth and industry rationalisation opportunities while providing a transparent market for valuing Shares. As there is no immediate committed growth opportunity requiring cash funding or imminent debt repayment requirement, all net proceeds will be generally applied to reduce existing debt as summarised in the table below:

	<i>\$million</i>
Sources of funds	
Issue of New Shares ¹	35.0
Uses of funds	
Repayment of debt ²	31.5
Costs of the Offer	3.5
Total	35.0

¹ Assumes 18.35 million Shares issued under the Offer

² Refer section 7.8 regarding financing facilities. The repayment of debt is not a matter of urgency.

2.3 Preferential Offer details

Who can apply?	Eligible Shareholders, Eligible Employees, Eligible Farmer Suppliers, Eligible Residents and Eligible Persons who are Australian and New Zealand residents.
Eligible Shareholder	A person who is either an Existing Shareholder or a TMI Redeemable Preference Shareholder (or both) at 5.00pm on 30 June 2011.
Eligible Employee	A person who is a permanent or casual (with at least three months service) employee of Bega Cheese or TMI who is employed at 5.00pm on 30 June 2011 and who has not resigned at that time.
Eligible Farmer Supplier	A person who is a milk supplier to the Bega Cheese Group as at 5.00pm on 30 June 2011, who is not an Existing Shareholder or a TMI Redeemable Preference Shareholder.
Eligible Resident	A person whose ordinary residential address is in the NSW postcode areas of 2546, 2548, 2549, 2550 or 2551.
Eligible Person	A person whom the Board in its sole discretion nominates to receive an invitation to apply for New Shares, made pursuant to this Prospectus.
How many Shares in the Preferential Offer?	A total of 5.25 million Shares have been set aside by the Company.
How to apply for Shares under the Preferential Offer	Applicants in the Preferential Offer may apply online for Shares at https://ipo.begacheese.com.au or by completing and returning the relevant Application Form with accompanying payment to the Share Registry. There are instructions set out on the Application Form to help you complete it. Application Monies (either via post and accompanied by a valid and properly completed Application Form or via BPAY®) must be received by the Share Registry by 5.00pm on 11 August 2011. To pay by BPAY®, the Applicant must apply via the online application facility.
Minimum application amount	Applications under the Preferential Offer must be for a minimum of \$2,000 worth of Shares and in multiples of \$500 worth of Shares thereafter.
Guaranteed amount	There is no guaranteed allocation of Shares. It is the Company's intention that subject to over subscriptions it will allot a minimum number of \$2,000 worth of Shares to each Applicant eligible under the Preferential Offer, whether they are eligible under one or more categories.
Address for return of Application Forms and Application Monies	Applications submitted via post must be mailed to: Bega Cheese IPO, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235.
Closing date of the Preferential Offer	5.00pm on 11 August 2011 Applications and Application Monies must be received by the Share Registry by no later than 5.00pm on 11 August 2011, unless the Company elects to close the Offer or any part of it early, extend the Offer or any part of it, or to accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier date and time, without notice. Applicants are therefore encouraged to submit their Applications as early as possible. Note that Applicants paying online or via BPAY should be aware that their own financial institution may implement earlier cut-off times with regards to electronic payment than the time at which the Offer closes, and should therefore take this into consideration when making payment. It is the responsibility of the Applicant to ensure that funds submitted online or through BPAY are received by the Company by the relevant due date.
What happens if there are insufficient applications for Shares under the Preferential Offer?	At the discretion of the Company, in consultation with the Lead Manager, the allocated Shares not applied for in the Preferential Offer will be released to the Retail Offer (excluding the Preferential Offer) and/or the Institutional Offer.
How to obtain a copy of this Prospectus and Application Form	By downloading a Prospectus from www.begacheese.com.au or by requesting a Prospectus by contacting the Bega Cheese Share Offer Hotline on 1300 365 969. If you are an Eligible Shareholder, Eligible Employee or Eligible Farmer Supplier, you will have been given a priority allocation number which you will need to quote in order to be able to download or request a Prospectus and Application Form. If you are an Eligible Resident, you will need to quote your post code. The Company will provide instructions to Eligible Persons for obtaining a Prospectus and Application Form.

2.4 Broker Firm Offer

Who can apply?	Australian residents who are sophisticated or professional investors (within the meaning of sections 708(8) and 708(11) of the Corporations Act, respectively) and, following the lodgement of this Prospectus, Australian and New Zealand resident investors who are not Institutional Investors and have received a firm allocation from their Broker.
How to apply for Shares under the Broker Firm Offer	Complete the Broker Firm Application Form attached to or accompanying this Prospectus or by completing the online Application Form. Contact your Broker for further instructions. Broker Firm Applicants must lodge their Application Form and Application Monies with their Broker in accordance with their Broker's directions in order to receive their firm allocation.
Minimum application amount	Applications under the Broker Firm Offer must be for a minimum of \$2,000 worth of Shares and be in multiples of \$500 worth of Shares thereafter.
Closing date of the Broker Firm Offer	5.00pm on 16 August 2011. Your Broker may impose an earlier closing date. Please contact your Broker for instructions.

2.5 CBA Retail Offer

Who can apply?	An Eligible Commonwealth Bank Customer, being a person the Lead Manager considers (in its discretion) is a resident of Australia or New Zealand and who is either a Commonwealth Bank customer or may have obtained a Prospectus from a Commonwealth Bank branch, and in each case who is also a Retail Investor.
How to apply for Shares under the CBA Retail Offer	Complete the relevant Application Form accompanying this Prospectus and submit by post to the relevant address (as outlined below) or apply online at www.commsec.com.au following the relevant instructions in relation to payment of your Application Monies. Applications and accompanying cheques will not be accepted at the Commonwealth Bank's registered office or at any of its branches.
Minimum application amount	Applications under the CBA Retail Offer must be for a minimum of \$2,000 worth of Shares and be in multiples of \$500 worth of Shares thereafter.
Address for return of Application Forms and Application Monies	Applications submitted via post must be mailed directly to: CommSec Bega Float Team Reply Paid 60768 Australia Square NSW 1214 Applications and accompanying cheques will not be accepted at the Commonwealth Bank's registered office or at any of its branches.
Closing date of the CBA Retail Offer	5.00pm on 16 August 2011. The Lead Manager may, without notice, close the CBA Retail Offer prior to the Closing Date. Eligible Commonwealth Bank Customers are therefore encouraged to submit their Applications as early as possible
How to obtain a copy of this Prospectus and Application Form	By downloading a Prospectus from www.commsec.com.au or by requesting a Prospectus by contacting the Lead Manager's retail affiliate, Commonwealth Securities Limited on 13 15 19, between 8:00 am and 8:00 pm Monday to Friday, for the duration of the Offer Period.

2.6 Employee Loyalty Offer

Who can apply?	Qualifying Employees are entitled to accept the Employee Loyalty Offer. A Qualifying Employee is a person who is a permanent or casual (with at least three months service) employee of Bega Cheese employed at 5.00pm on 30 June 2011 and who has not resigned at that time. A separate Offer will be sent to each Qualifying Employee that gives details of the Qualifying Employee's entitlement under Employee Loyalty Offer.
How to apply for Shares under the Employee Loyalty Offer	Qualifying Employees will receive a personalised letter of offer, which will provide details of how Qualifying Employees can either submit their Application Form online or request a hard copy of this Prospectus and Application Form that must be completed and returned to the Share Registry by 5.00pm on 11 August 2011. There are several components of the Employee Loyalty Offer that are explained in section 9.12.
Guaranteed amount	Qualifying Employees who accept the Employee Loyalty Offer are guaranteed to receive 250 Shares. The Employee Loyalty Offer does not permit the issue of a greater or smaller number of Shares to Qualifying Employees than that specified in the personalised Offer letter. However Qualifying Employees will also be entitled to apply for additional Shares under the Preferential Offer as they will also meet the criteria for an Eligible Employee (see section 2.3 above).
Escrow	Qualifying Employees are not permitted to dispose of the 250 New Shares they received under the Tax Exempt Plan component of the Employee Loyalty Offer until the earlier of three years after the issue date and the cessation of their employment with Bega Cheese Group. There is no escrow restriction on additional New Shares that Qualifying Employees may receive under the Incremental Plan component of the Employee Loyalty Offer.
How to Pay	Qualifying Employees do not need to make any monetary payment for Shares issued under the Employee Loyalty Offer.
Issue date	The New Shares under the Employee Loyalty Offer will be issued on the Listing Date.
How to obtain a copy of this Prospectus and Application Form	Qualifying Employees will be sent a personalised Offer letter relating to the Employee Loyalty Offer. If you believe you are a Qualifying Employee and have not received a personalised offer, Bega and Coburg based employees should contact the Bega payroll office on 02 6491 1704 and Strathmerton based employees should contact the Strathmerton payroll office on 03 5875 8227; or send an email to bega.admin@begacheese.com.au.

Further particulars of the Employee Loyalty Offer are in section 9.12. Some entitlements to New Shares are structured by way of rights to New Shares provided the recipient remains an employee of Bega Cheese for a further 12 months from the Listing Date.

2.7 Availability of funds

You should ensure that sufficient funds are held in the relevant account to cover the amount of the cheque. If the amount of your cheque for Application Monies (or the amount for which the cheque clears in time for allocation) is less than the amount specified on the Application Form, you may (unless your Broker advises otherwise) be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

Application Monies received under the Offer will be held on trust in a special purpose account until Shares are issued to successful Applicants. Applicants under the Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by the Company.

2.8 Allocation policy

2.8.1 General

The allocation of Shares under the Preferential Offer and the Employee Loyalty Offer will be determined by the Company in its absolute discretion. The allocation of Shares between the Broker Firm Offer, CBA Retail Offer and Institutional Offer will be determined by the Company in consultation with the Lead Manager.

In compliance with the Shareholding Limit, no person will be allocated Shares that would result in that person holding more than 5 percent of all Shares.

2.8.2 Allocation policy under the Preferential Offer

There is no guaranteed allocation of Shares to Applicants in the Preferential Offer. It is the Company's intention that subject to over subscriptions it will allocate a minimum of \$2,000 worth of Shares to each Applicant eligible (whether under one or more categories) under the Preferential Offer. In the event that the Preferential Offer is oversubscribed, Applications will be scaled back at the absolute discretion of the Board.

Bega Cheese has absolute discretion regarding the allocation of Shares to Applicants in the Preferential Offer and may reject any Application, or allocate fewer Shares than applied for.

The Company reserves the right to scale back or reject applications which are from persons whom they believe may be Institutional Investors or persons not eligible under the Preferential Offer.

2.8.3 Allocation policy under the Broker Firm Offer and CBA Retail Offer

A proportion of the Shares to be allocated in the Retail Offer will be reserved for Broker Firm Applicants under the Broker Firm Offer. Any Shares not allocated to these components of the Offer will be allocated to Eligible Commonwealth Bank Customers under the CBA Retail Offer. The Lead Manager reserves the right to reject Applications which are from persons whom they believe may be Institutional Investors or persons not eligible under the Broker Firm Offer and CBA Retail Offer. It will be a matter for the Brokers as to how they make firm allocations among their Retail Investor clients.

If the CBA Retail Offer is over subscribed, the Company in consultation with the Lead Manager may reject any Application, or allocate fewer Shares than applied for.

Brokers will be responsible for ensuring that their Broker Firm Applicants receive the relevant Shares under their broker firm allocation. Neither the Company nor the Lead Manager will be responsible for the allocation of Shares to Broker Firm Applicants under the Broker Firm Offer.

2.9 Acceptance of Applications

An Application under the Retail Offer is an offer by the Applicant to the Company to subscribe for Shares, for all or any of the Application Monies specified in and accompanying the Application Form, at the Offer Price (except in the case of the Employee Loyalty Offer where no monetary payment is required) on the terms and conditions set out in this Prospectus including any supplementary or replacement Prospectus and the Application Form. To the extent permitted by law, the offer by an Applicant is irrevocable.

An Application under the Retail Offer may be accepted by the Company in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

2.10 Institutional Offer

2.10.1 Invitations to bid

The Institutional Offer consists of an invitation prior to or after the date of this Prospectus to certain Institutional Investors in Australia and New Zealand to apply for Shares under this Prospectus. Application procedures for Institutional Investors have been, or will be, advised to the Institutional Investors by the Lead Manager.

2.10.2 Institutional Offer allocation policy

The allocation of Shares among bidders in the Institutional Offer is determined by the Lead Manager in its absolute discretion.

The allocation policy will be influenced by the following factors:

- the number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- the Company's desire for an informed and active trading market in Shares following listing;
- the Company's desire to establish a wide spread of Institutional Investor Shareholders;
- the overall level of demand under the Retail Offer and the Institutional Offer;
- the size and type of funds under the management of particular bidders;
- the likelihood that particular bidders will be long term Shareholders;
- the Shareholding Limit; and
- any other factors that the Company and the Lead Manager consider appropriate, in their sole discretion.

2.11 Offer Management Agreement

The Company and CBA Equities have entered into an Offer Management Agreement in respect of the management of the Offer. The Offer Management Agreement sets out a number of circumstances under which the Lead Manager may terminate the agreement. A summary of the agreement is set out in section 9.5.5.

2.12 ASX listing

Application for admission of the Company to the official list of ASX and quotation of the Shares on ASX will be made to ASX no later than seven days after the date of this Prospectus.

If the Company does not make such an application within seven days after the date of this Prospectus, or the Company is not admitted to the official list of ASX within three months of the date of this Prospectus (or any longer period permitted by law), the Offer will be cancelled and all Application Monies will be refunded (without interest).

The fact that ASX may admit Bega Cheese to the official list is not to be taken as an indication of the merits of Bega Cheese or the Shares offered for subscription. Trading of Shares on ASX, if admission to the official list is granted, is expected to commence on or about 29 August 2011.

2.13 Discretion regarding the Offer

The Company reserves the right not to proceed with the Offer or any part of it at any time before the allocation of Shares to Applicants. If the Offer or any part of it is cancelled, all Application Monies, or the relevant Application Monies, will be refunded (without interest).

The Company also reserves the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or allocate to any Applicant (other than Qualifying Employees under the Employee Loyalty Offer) fewer Shares than applied for.

2.14 If maximum subscription is not achieved

The Company intends to accept Applications up to 17,500,000 Shares under the Retail Offer (excluding the Employee Loyalty Offer) and the Institutional Offer. In the event that Applications are below this amount the Company intends to accept all Applications and proceed with the listing on ASX provided it meets the minimum ASX shareholder spread requirements.

2.15 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See section 9.22 for details of the fees payable by the Company to the Lead Manager and by the Lead Manager to the Co-manager.

2.16 CHESS and issuer sponsored holdings

The Company will apply to participate in ASX's Clearing House Electronic Subregister System, in accordance with the Listing Rules and the ASTC Settlement Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

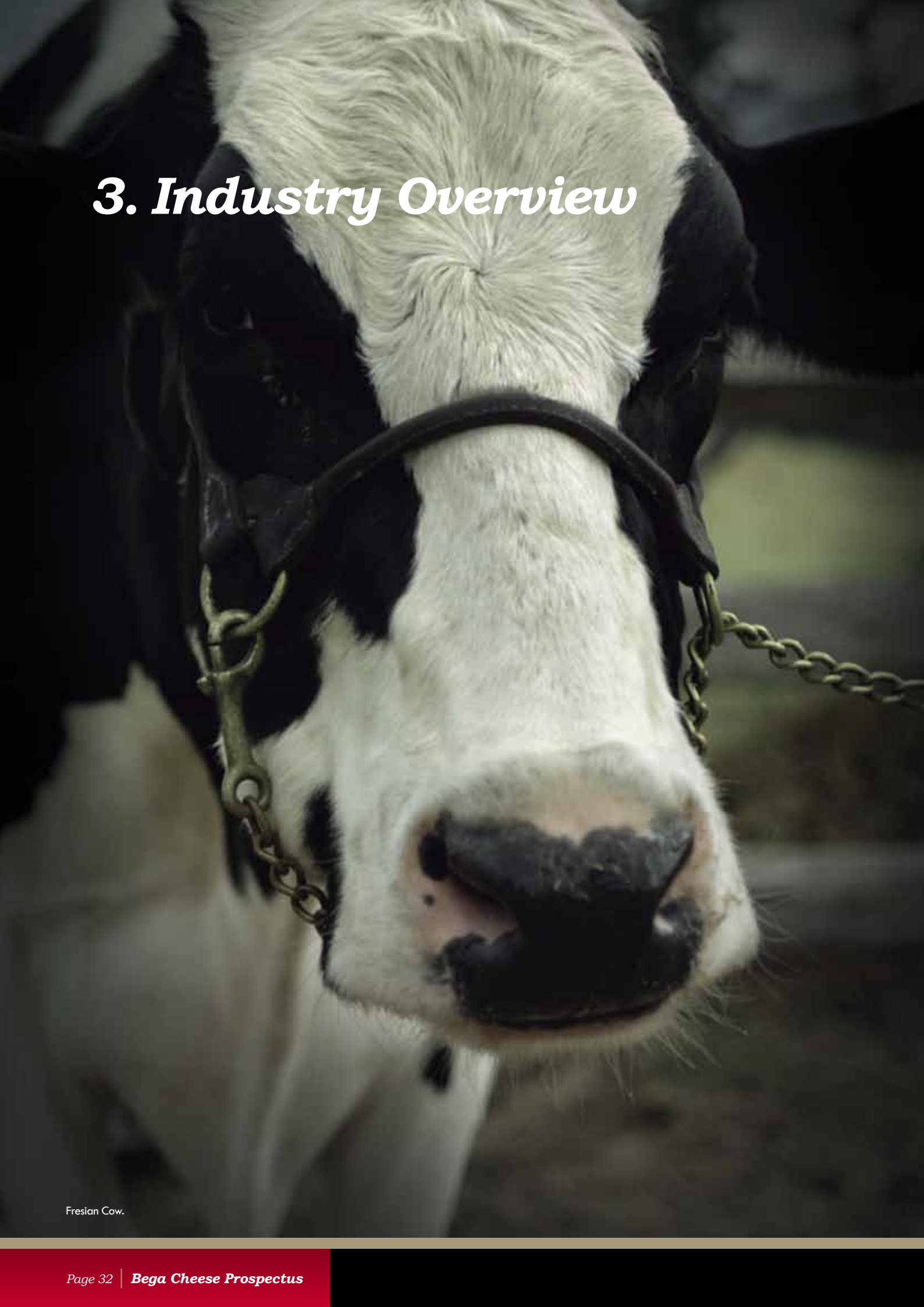
When the Shares become Approved Financial Products (as defined in the ASTC Settlement Rules), holdings will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister. Successful Applicants will have their Shares issued on the issuer sponsored subregister of Bega Cheese and will receive an issuer sponsored holding statement following allocation of the Shares. Post allocation, Shareholders will be able to instruct their sponsoring participant to convert or transfer their Shares into an existing CHESS holding. For all other successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following settlement, Shareholders will be sent a Holding Statement that sets out the number of Shares that they have been allocated. This statement will also provide details of a Shareholder's Holder Identification Number for CHESS holders or, where applicable, the Securityholder Reference Number of issuer sponsored holders.

Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued.

2.17 Enquiries

If you require assistance to complete the Application Form, you should contact the Bega Cheese Share Offer Hotline on 1300 365 969 from 9.00 am until 5.00 pm Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Bega Cheese is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant or other independent professional adviser.

A close-up, front-facing photograph of a Friesian cow's head. The cow has a white face with black patches around its eyes and on its ears. It is wearing a black leather halter with a metal chain attached. The background is dark and out of focus.

3. Industry Overview

Friesian Cow.

3. Industry Overview

3.1 Overview

The Company has prepared this section by reference to its own information as well as to information and statistics provided by Dairy Australia in its publications, specifically "Dairy 2011 (May) - Situation and Outlook" and "Australian Dairy Industry In Focus 2010". Extracts that have been drawn from Dairy Australia publications relate to the Australian dairy industry as a whole and not specifically to the Bega Cheese Group. This section should be read in conjunction with section 5, which includes various industry and company specific risk factors.

The dairy industry encompasses businesses ranging from dairy farms through to food manufacturers. Cow's milk consists of solids (milk fat, protein, lactose and minerals) in water, with water making up about 87 percent of the volume.

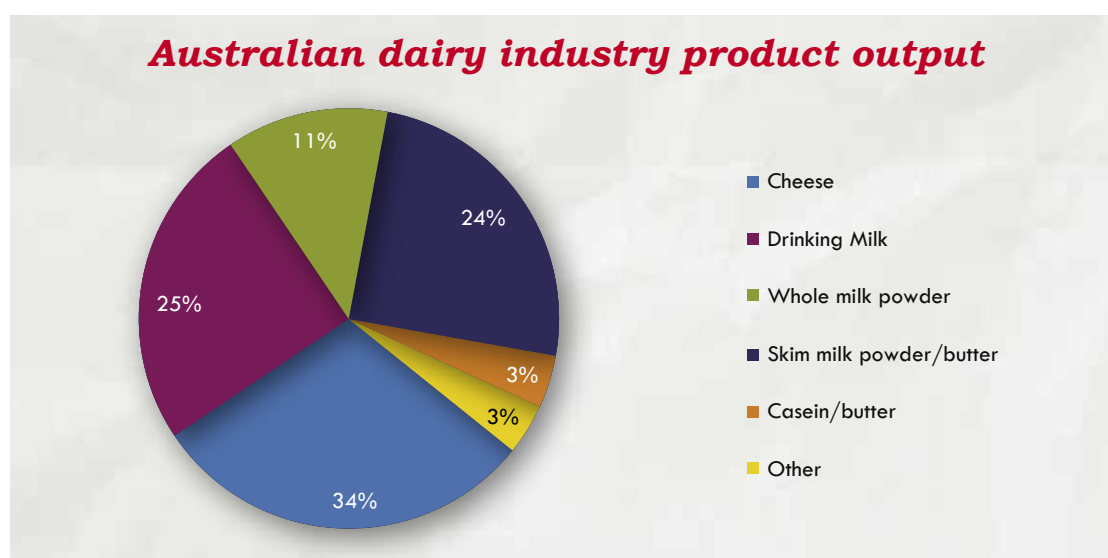
Milk produced by farmers is processed into products including fresh milk, cheese, butter, cream, yoghurts, custards and milk powders. In addition, certain products comprise the nutritional components of milk such as lactoferrin and colostrum or by-products such as whey and permeate.

In general, the industry tends to be categorised into two sectors. The first is the "market" or "liquid" milk sector that produces fresh drinking milk for immediate domestic consumption. The second is the "manufacturing" milk sector which further processes the milk into various dairy commodities and value-added products including cheese, butter, yoghurt, and milk powders. The importance of this distinction is that the price paid for market milk, particularly in NSW and Queensland, is based on local demand for drinking milk on a year-round basis, while the price paid for manufacturing milk tends to be based on returns from international dairy commodity prices (translated into Australian dollars). This reflects the fact that products such as cheese, milk powders and butter are global commodity items and prices received are based on international prices.

Bega Cheese and TMI are primarily manufacturing milk entities, although Bega Cheese has a minor involvement in the liquid milk market through its 25 percent interest in CCFA. As well as manufacturing cheese and other dairy products, Bega Cheese operates cheese cutting and packaging facilities that convert bulk cheese and other dairy ingredients into natural and processed cheese into retail pack products for itself and other food companies. TMI manufactures a range of dairy products including cream cheese, milk powder, milk protein isolate, butter, infant formula and other nutritional products. Further details of the activities of the Bega Cheese Group are set out in section 4.

Australia

The overall product output of the Australian dairy industry is as follows:



Source: Dairy Australia

Australia's dairy industry is one of its three most important domestic rural industries ranking behind the beef and wheat industries. The estimated farm gate value of the dairy industry in 2009/10 was \$3.4 billion.

Features of the Australian dairy industry include:

- In FY2010, 1.6 million cows on just over 7,500 farms produced 9.0 billion litres of milk.
- Recent low volumes and intense competition at both the supply and retail level has resulted in ongoing rationalisation in the number of dairy processors and manufacturers.
- 64 percent of Australia's milk is produced in Victoria.
- 45 percent of milk production is now converted into products that are exported overseas as opposed to 31 percent in 1990. Australia's major export destinations by value in 2009/2010 included Japan (19%), China (10%), Singapore (9%) and Indonesia (6%).
- The Australian dairy manufacturing sector is diverse including farmer-owned co-operatives as well as public, private and multinational companies. Industry estimates are that six major milk buyers acquire circa 90 percent of all milk production. The Group's total milk intake in FY2010 was 615.8m litres which equates to approximately 6 percent of the total Australian milk production.
- Per capita consumption of dairy products has remained relatively stable over the past decade.

Bega Cheese's business model is focused on both conversion of milk into value added dairy products and the value adding of dairy ingredients. While the Bega Cheese Group manages a relatively small percentage of Australia's raw milk, it is a significant packager and value adder of cheese and other dairy products in Australia. Refer to section 4 for further details.

Global

The international dairy trade is of considerable importance to the Australian dairy industry. Dairy product exports account for nearly half of total milk production. The price of milk received by farmers in the domestic market is linked to export returns and the relative value of the Australian dollar to the US dollar.

Features of the global dairy industry include:

- Most countries in the world have a local milk production capacity. In many countries, including large Australian dairy export destinations such as the Middle East and Asia, dairy production falls significantly short of demand. These countries supplement their local production with imported dairy products.
- The European Union and USA account for 26 percent and 16 percent respectively of world cows' milk output, compared to Australia which produces 2 percent.
- Most dairy products are consumed in the country in which they are produced, with less than 8 percent of global production traded on international markets.
- Global dairy exports are dominated by New Zealand (35 percent of all export sales), the European Union (32 percent of all export sales) and Australia (10 percent of all export sales).
- Significant trade barriers exist in many countries.
- Milk production has been relatively stable in Western countries but has increased steadily in Asia and Central and South America.
- Consumption of dairy products in Western countries is relatively stable while dairy consumption in Asia and Central and South America is increasing rapidly. Infant formula is an important part of this demand.

3.2 Government regulation of the dairy industry

Australia

Major changes to the structure of the dairy industry occurred in July 2000 with the removal of all production and sale quantity price regulation, including official distinctions between market milk and manufacturing milk. As a result, Australian dairy farmers now operate in a deregulated and open market with the main government involvement being the administration of food standards and food safety assurance systems. Deregulation has resulted in intense competition between processors in the market milk sector.

Domestic and international market circumstances combined with regional milk supply availability are now the only drivers for the price received by farmers for their milk. Manufacturers and processors of dairy foods now derive their earnings from revenue generated by the sale of their products without any government support or payments.

Global

The international trade in dairy produce is distorted by tariff and non-tariff protection by the major producing and consuming countries including the USA, Japan and countries within the European Union.

Some significant trade barriers include:

- USA - direct bilateral quota arrangements which restrict Australian imports.
- European Union - direct bilateral quota arrangements restrict Australian imports.
- Japan - quotas on Australian cheese and skim milk powder.
- China - tariffs exist but there are no quotas.

Australia does apply some tariffs on imports of dairy products.

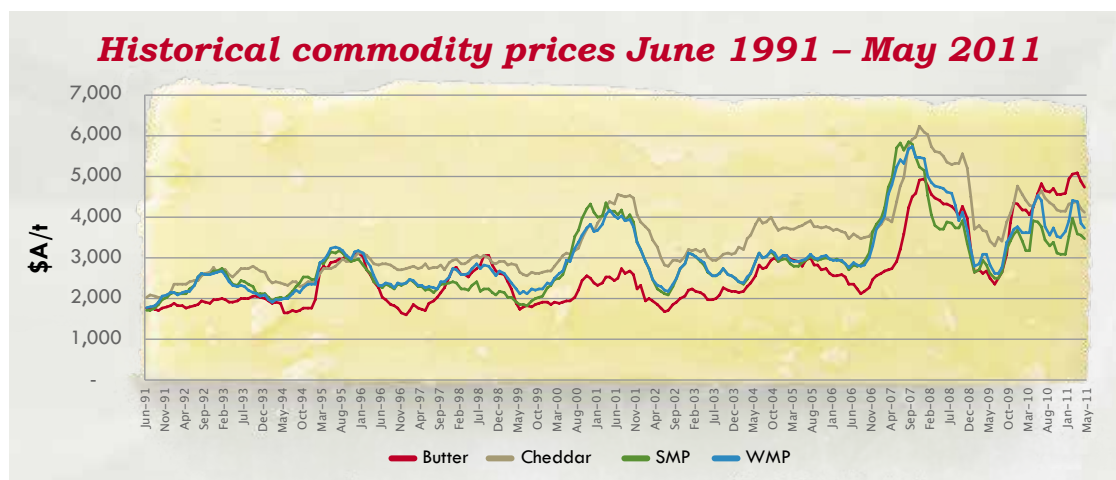
3.3 Current market conditions

The decade commencing January 2000 has been heavily influenced by drought conditions throughout Australia which has resulted in lower cattle numbers and a reduction in milk supply.

In FY2008, market conditions (especially prices for commodity products) improved dramatically as a result of strong global demand. However, FY2009 was impacted by the world wide downturn associated with the global financial crisis. FY2010 saw a significantly improved turn around in operating conditions for the Australian dairy industry. Strengthening global economic conditions following the global financial crisis have underpinned renewed demand and growth in key markets in 2010, while reduced supplies have seen dairy commodity prices rise in US dollar terms.

On-farm milk production in late 2010 and early 2011 has been impacted by wet conditions and in some regions substantial floods. While this has had a short term impact on milk production, generally the improved water supplies provide optimism for a good finish to the FY2011 milk season especially in the south-eastern regions. In contrast, Western Australia remains in drought. Overall Australian milk production in the year ending 30 June 2011 is expected to remain steady compared to the prior year.

The high Australian dollar is constraining returns to exporters but strong global demand for dairy products (especially from China and Russia) is underpinning a relatively good current year for dairy product exporters. China's total volume of dairy product imported in 2010 was estimated at US\$30 billion, up 61% from the prior year.



Source: Dairy Australia

Domestically the recent action by major retailers to cut the retail selling price of private label milk, butter and cream as part of a wider strategic market play has received substantial media attention and resulted in an enquiry by the Australian Parliament. There is no immediate material impact on Bega Cheese and Farmer Suppliers as a result of this action. The medium to long term implications however are still not clear.

3.4 Industry outlook

Global dairy commodity prices have been increasing, underpinned by demand from China and Russia. Feed grain supplies are plentiful and recent rains in south-eastern Australia are on the whole positive for the industry.

There are however a number of unknowns including:

- Short term currency volatility.
- Impact of food price inflation in China and India.
- Political unrest in the Middle East.
- USA Farm Bill that provides assistance to US farmers is due for renewal in 2012.
- Recovery of regional areas from the impact of recent drought and floods.

The late 2008 acquisition of Dairy Farmers by Lion Nathan National Foods (Lion) a member of the Kirin Group, was the most recent significant corporate consolidation in the Australian dairy sector. In November 2010, Bega Cheese acquired a 15 per cent interest in WCB. Fonterra sold its Brownes business to a private equity company in early 2011. Lion have also announced a rationalisation of its Australian cheese making facilities.



Coburg Facility supply chain and logistics.



Ridge St Facility: cheddar cheese
natural slice production.

4. Bega Cheese Group Business



Ridge St Facility:
cheddar cheese cutting
and packaging line.

4. Bega Cheese Group Business

4.1 Bega Cheese Group business divisions

Bega Cheese Group operates five dairy manufacturing sites strategically located across NSW and Victoria. Bulk cheddar cheese, string cheese, and whey powder are produced at Lagoon Street, Bega and bulk cheddar and mozzarella cheese are produced at Coburg, Victoria. Milk powders, cream cheese and nutritional products are produced at Tatura. The Ridge St, Bega and Strathmerton, Victoria facilities are dedicated to the cutting, packaging and processing of bulk cheese products into retail packs.

The Group's business can be categorised as follows:

Core dairy products manufacturing:

- a. cheddar, cream and mozzarella cheeses, milk powders, butter and cream.

Fast Moving Consumer Goods ("FMCG") business focused on cheese packaging and processing, including products under the Bega brand:

- a. cutting, packaging and processing of cheese products into retail packs for customers including Fonterra, Kraft Foods and ALDI Stores;
- b. licensing Fonterra, in return for a royalty, the exclusive right to use the Bega brand trade marks in Australia on natural and processed cheddar cheese, string cheese and butter products; and
- c. direct marketing and sales of Bega products internationally.

Nutritional food products manufacturing:

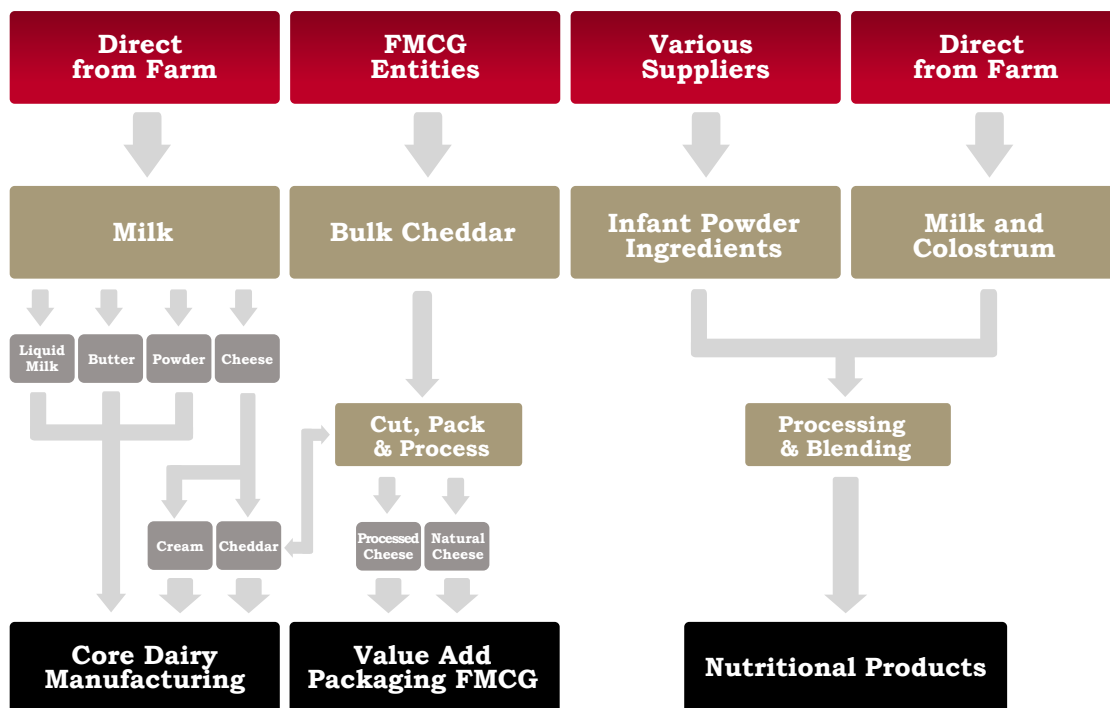
- a. infant formula; and
- b. milk biologics such as lactoferrin and colostrum.

Bega Cheese has several assets and interests that could be defined as strategic investments outside of its core manufacturing businesses. These assets and interests include a 15 percent investment in WCB and 25 percent interest in CCFA.

The following table summarises the recent production levels and the Group's assessment of reasonable capacity levels in tonnes per annum (assuming traditional product mix). One of the potential growth areas is the Group's investment in capacity and the ability to benefit from higher utilisation of its existing facilities.

Facility	Production FY2010(t)	Production FY2011F(t)	Capacity(t)
Lagoon St	23,349	23,933	42,000
Coburg	5,799	4,773	10,000
Ridge St	61,626	61,358	75,000
Strathmerton	29,422	32,546	100,000
Tatura	66,896	62,969	94,000
Total	187,092	185,579	321,000

The following table provides a schematic overview from the receipt of milk and other raw materials and the processing by the Bega Cheese business.



The size of boxes and arrows in the above chart does not reflect the relative size of each business. Based on FY2011F numbers, the estimated split of revenue is 32% core dairy, 59% FMCG and 9% nutritional products.

4.1.1 Core dairy manufacturing

i Bega Cheese

The Bega Cheese Group receives approximately 600 million litres of milk annually. Information on the contractual arrangements for the supply of milk is contained in section 4.2.

At the Lagoon St Facility in Bega, milk is received from around 90 dairy farmers in the Bega and surrounding area and 40 other dairy farmers located in the Illawarra region and Victoria's Gippsland district. While some bulk milk is sold for daily milk consumption to CCFA, milk is mainly utilised to manufacture cheddar cheese, string cheese, butter and whey powder. The majority of the cheddar cheese manufactured at the Lagoon St Facility is directed to the Ridge St and Strathmerton Facilities to be cut, packed and processed into value added consumer products (refer section 4.1.2). A small volume of bulk cheddar cheese is exported. String cheese is processed and packed into retail ready packs at the Lagoon St Facility.

The Coburg Facility has the capacity to produce both cheddar and mozzarella cheese. The mozzarella production line has been recently refurbished, which will lead to an increase of the volume of mozzarella manufactured at Coburg that will be sold into the Australian and international market.

ii TMI

TMI is a business to business dairy food manufacturer, that is, it supplies dairy products to other food companies on a wholesale basis. Milk is converted into a range of core dairy products, including cream cheese, high fat frozen cream, whole milk powder, skim milk powder, milk protein isolate and butter. TMI conducts a sales and marketing operation separate from Bega Cheese and has been active for many years in the Asian markets.

The cream cheese and high fat dairy products produced at TMI are used in the production of cheesecakes and other food and drink products in Asia. TMI customers are major international food, dairy product and trading companies. Over 75 percent of TMI FY2011F revenue is estimated to be from exports, primarily to Asian markets.

Milk protein isolate is produced as a spray-dried powder containing 85 percent milk protein and is used as a dairy ingredient in desserts, baked goods, toppings, low-fat spreads, dairy based mixes, beverages and processed cheese products. It is produced by TMI on one of its driers which incorporates plant and know-how provided under lease and licence arrangements by a French company, Ingredia SA. Ingredia SA is also TMI's largest customer for milk protein isolate and its relationship with TMI is documented in a series of agreements relating to the manufacture, supply and sale of milk protein isolate products, which are described in section 9.5.4.

In addition, TMI produces approximately 20,000 tonnes a year of commodity type milk powders. The majority of this production is exported to Asian markets.

4.1.2 Fast Moving Consumer Goods ("FMCG")

Bega Cheese operates Australia's two largest cheese processing, cutting and packaging facilities, one at Ridge St Bega, NSW and the other at Strathmerton, Victoria. Both facilities have the ability to manufacture processed cheese as well as pack natural and processed cheese into retail packs.

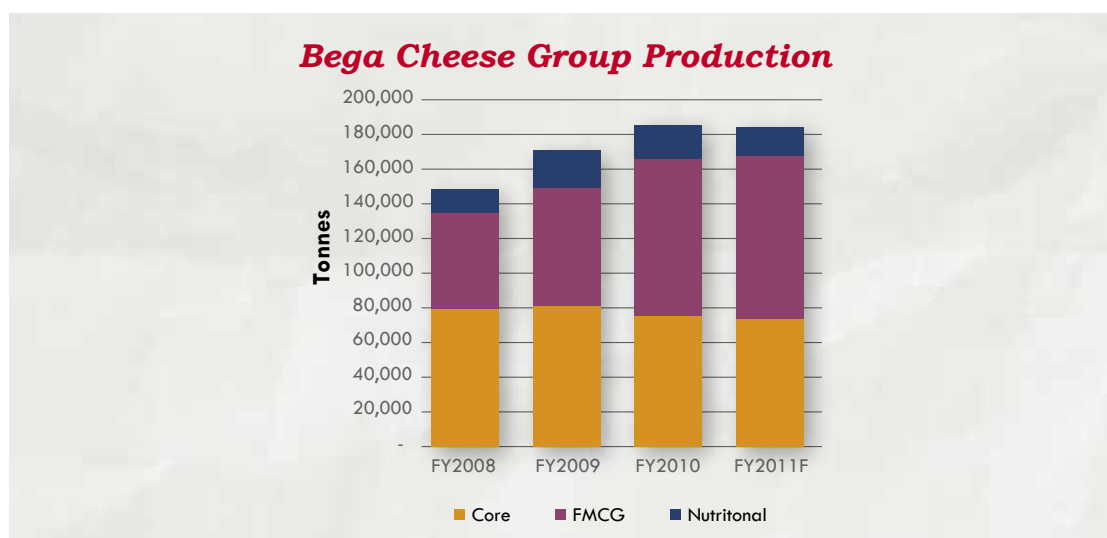
i. The Ridge St Facility

The Ridge St Facility was established in 1998. The facility was originally designed with a capacity of between 18,000 - 20,000 tonnes per annum (tpa). From 2001, capacities have been progressively increased and depending on product mix the plant can now cut, pack and process approximately 75,000 tpa. The product range of the Ridge St Facility includes packaged block, grated and sliced natural cheese, individually wrapped processed cheese slices and processed slices for food service and quick service restaurants.

The processed cheese equipment includes lines for the packaging of processed cheese slices either as individually wrapped or slice on slice. The natural cheese cutting and packing capability includes a high speed block cutting and packaging system, which is amongst the most efficient cutting and packing technology available in the world. Bega Cheese has equipment for the grating of cheese, flow wrapping and vacuum packaging of cheese for product ranges from 10g to 10kg. The plant can produce packages of various sizes and shapes, in line with consumer demands in both export and domestic markets.

In FY2011, the Ridge St Facility is forecast to cut, pack and process approximately 61,000 tonnes of packaged cheese products of which approximately 20,000 tonnes is Bega branded product, widely regarded as one of the leading brands in the Australian dairy industry. All Bega branded cheese products for sale in the Australian market are produced by Bega Cheese for supply to Fonterra, which sells and markets those products in accordance with its exclusive licence rights to use the Bega trade marks. Bega Cheese also supplies other Fonterra cheese products from the Ridge St Facility.

The quality assurance system at both the Ridge St and Strathmerton Facilities includes a combination of cheese grading, check weighing, metal detection and x-raying equipment as required on each individual packaging line. These plants are amongst the best in the world in terms of capacity and food safety.



Source: Bega Cheese

ii. Fonterra Trade Mark Licence Agreement

On 8 May 2001, Bega Cheese granted a long term exclusive trade mark licence to Fonterra (an Australian subsidiary of the New Zealand based Fonterra Group Co-op Ltd) to use the Bega trade marks on natural and processed cheddar cheese, string cheese and butter products in Australia. The key terms of this trademark licence agreement are described in section 9.5.1. Fonterra has the direct relationship with supermarkets and other retail outlets and has overall responsibility for marketing and distribution. Bega Cheese receives a royalty calculated as a percentage of sales of Bega branded products sold by Fonterra.

iii. Fonterra Product Supply Agreement

In conjunction with the licensing of the Bega trade marks, Bega Cheese entered into a long term product supply agreement with Fonterra (FPSA) under which it supplies bulk cheese manufactured at Bega and retail packs of cheese products to Fonterra. This includes all products packed under the Bega brand for sale in Australia and, at Fonterra's request, other cheese products. The key terms of this agreement are in section 9.5.1.

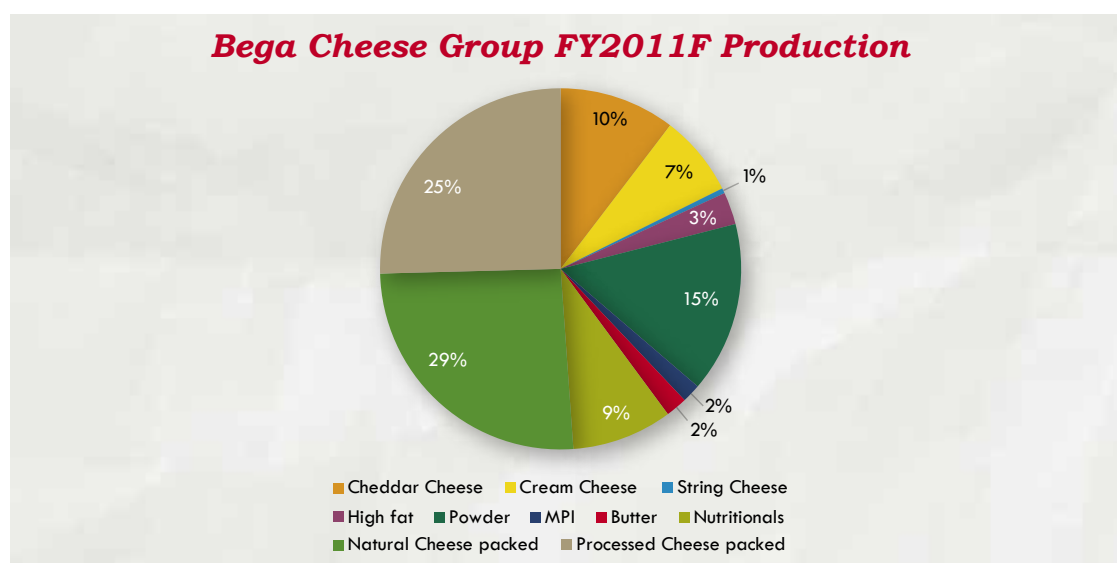
Bega Cheese supplies products to Fonterra on a cost plus basis under an arrangement that obliges Fonterra to source the bulk dairy products used in the manufacture of the finished products. Accordingly, Bega Cheese's fundamental role is to cut, pack and process bulk cheese into retail and foodservice ready products. Bega Cheese and Fonterra have recently agreed in principle to various changes to the FPSA and intend to have these changes implemented through a legally binding agreement to be signed in the near future. Those changes, if implemented, would not materially alter the key features of the FPSA. Further details of this matter are set out in section 9.5.1.

iv. The Strathmerton Facility

The Strathmerton Facility was acquired from Kraft Foods in March 2009. In FY2011, Bega Cheese completed a major capital investment that introduced high-speed natural block, sliced natural cheese and grated cheese capacity. In addition, Bega Cheese relocated some of its cheese canning assets and re-commissioned the Strathmerton canning line.

The Strathmerton product range includes block, grated and sliced natural cheese, individually wrapped process cheese slices, canned cheese, slice on slice processed cheese for food services and quick service restaurants, processed cheese sticks, processed cheese triangles, processed cheese spreads in jars and processed cheese blocks. The Strathmerton Facility's current capacity is in the order of 100,000 tpa, depending on the product mix.

In FY2011, the Strathmerton Facility is forecast to produce approximately 32,500 tonnes of cheese products. The facility is now well placed to service significant growth in the Company's cheese business as well as providing a back-up for the Ridge St Facility.



v. The Kraft Product Supply Agreement

In conjunction with the acquisition of the Strathmerton Facility, Bega Cheese entered into a long term product supply agreement with Kraft Foods (KPSA) under which it supplies retail packs of cheese to Kraft. This relationship acknowledges the industry skill and expertise of Bega Cheese in providing cheese cutting, packing and processing operations. Bega Cheese supplies products to Kraft Foods on a costs plus basis, with Kraft being responsible for the sourcing of the bulk dairy products used in the manufacture of the finished products. Further particulars of the KPSA are set out in section 9.5.2.

vi. Bega Cheese export business

Bega Cheese retains the right to use the Bega brand in international markets. It conducts its own export marketing, sales and distribution activities and this has been a major growth area in recent years. The export business is built with a customer service philosophy, which extends to specialising in contract packing for the international market place. Bega Cheese will pack third party brands owned by other dairy companies, distributors or supermarket chains.

The Company now exports over 12 million units of cheese and butter per year to approximately 40 countries via a distribution network comprising direct customers, agents and distributors. The Bega brand features prominently in the mix of export business. However, other Bega Cheese owned brands such as *Melbourne* are also used.

Bega Cheese began exporting its extensive range of retail cheese products in the early 1990s, fuelled by the strong import demand from non-dairying regions, such as the Middle East. Bega Cheese produces cheese products to suit particular international requirements. For example, Bega Cheese operates the only cheese canning line in the trans-Tasman region in order to service the demand for this style of presentation into the Middle East. The largest exports are to the Middle East, South East Asia and North Asia, with sales also to Central and South America and the Pacific Islands.

The strength of the export business has been the extensive range of products Bega Cheese offers across both processed and natural cheddar cheese, from retail, through to the food service and quick service restaurant sectors. While retail product is the focus of the export business, limited volumes of bulk cheddar, butter and whey powder are also exported.

vii. Contract packaging services to other customers

In addition to Fonterra and Kraft Foods, Bega Cheese also supplies products under contract packing arrangements to other customers wishing to use their own brands on cheese products. As an example, Bega Cheese has for over ten years supplied ALDI Stores with retail cheese packs under ALDI Stores private label brands.

4.1.3 Nutritional food products manufacturing

i. Infant formula

TMI produces high value nutritional products such as formula for infants and children, lactoferrin and hyperimmune colostrum. While some milk and all colostrum are sourced locally, the production of infant and other formula products is not substantially dependent on local milk supply.

TMI has been manufacturing infant and other formula products for customers since 1993 and has developed supply arrangements with companies in Australia, Japan, China, Korea and Taiwan. Some of the formulations that have been developed in conjunction with these companies are complex and manufactured to very tight quality specifications.

TMI operates within a strict quality environment monitoring and evaluating the quality of product from the farm through to the final product delivered to customers. Raw materials are sourced from a number of suppliers and blended to exacting specifications. Australian product has a high reputation in the Asian markets for its quality and safe use for infants.

Products currently manufactured include:

- Infant formula – stage 1 for 0-6 month old infants.
- Follow-on formula – stage 2 for 6-12 month old infants.
- Growing-up milk powder – stage 3 for 12-24 month old toddlers.

TMI's current production capability comprises a wet-mix dry ingredient addition and two multi-stage driers. In FY2010, TMI produced nearly 20,000 tonnes of infant and other formula product. TMI supplies these products in bags ranging from 25kg up to bulk bags of approximately 800kg. TMI can also arrange for formula products to be supplied in retail-ready cans through third party canning service providers.

An important part of TMI's production of nutritional formula products takes place under a long term agreement with Mead Johnson, a global leader in infant and children's nutrition. Under this agreement, TMI allocates one of its two multi-stage driers and provides the staff and site services required to enable Mead Johnson to produce nutritional powder. Further particulars of the agreement are set out in section 9.5.3.

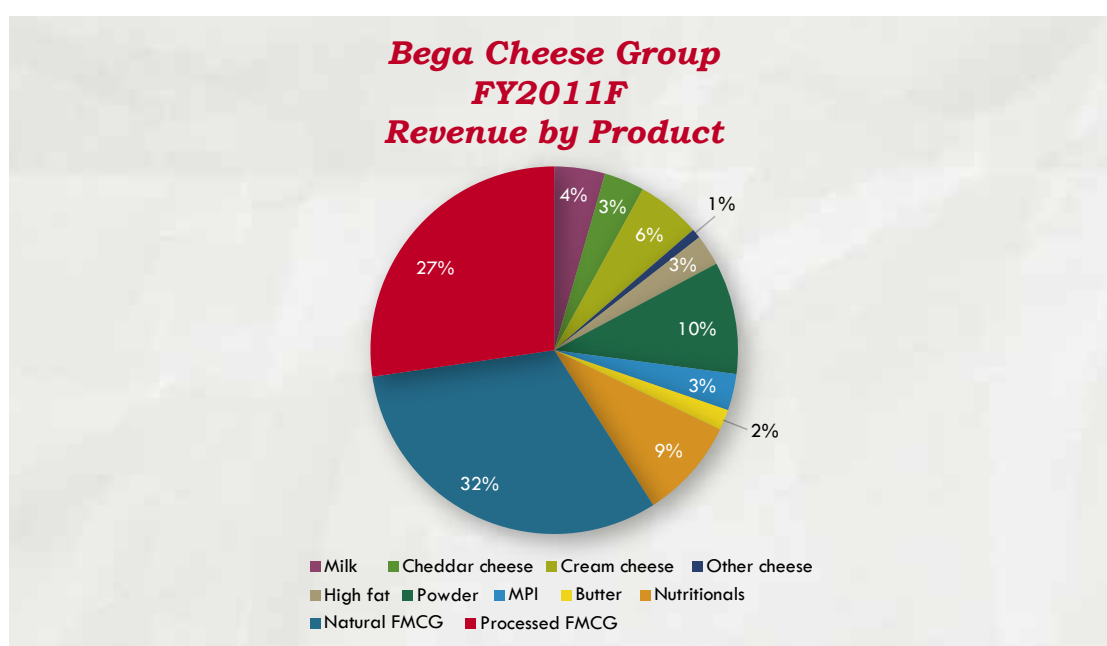
ii. Hyperimmune colostrum and lactoferrin

Hyperimmune colostrum and lactoferrin are significant milk biologic products that bring to food markets unique health and nutritional features of milk. TMI utilises a patented colostrum collection system to enable near aseptic collection and to segregate the very first milking colostrum following the birth of calves. This collection system combined with on-farm freezing ensures that TMI's colostrum is kept in the best possible condition prior to concentration and drying using a proprietary low heating process.

Lactoferrin is a freeze-dried protein purified directly from premium quality milk. As well as being necessary for normal growth of intestinal cells, lactoferrin functions as an antioxidant in iron mediated oxidation reactions and as an anti-inflammatory agent. TMI uses advanced ion-exchange technology producing lactoferrin that is of the highest purity and has amongst the best biological activity of any produced in the world. Lactoferrin is used in a range of applications including infant formulas, adult nutritional powders and drinks, yoghurts and sports formulations.

4.1.4 Strategic Investments

Bega Cheese has several assets and interests that could be defined as strategic investments outside of its core manufacturing businesses. These assets and interests include a 15 percent investment in WCB and 25 percent interest in CCFA, refer section 9.2 for details of these businesses. Bega Cheese believes that further consolidation and corporate activity is likely to occur in the Australian dairy industry in the near future. The Board believes that Bega Cheese's interests in CCFA and WCB will be important assets in the ongoing rationalisation of the Australian dairy industry and accordingly there are a number of options including merging, disposing or trading of these assets. Both businesses are performing satisfactorily with CCFA managing a highly competitive market milk environment and WCB reporting historically strong financial results. Following Bega Cheese's recent investment in WCB, the organisations undertook to investigate opportunities within the parameters permitted by competition law for business improvement for both companies.



Source: Bega Cheese

4.2 Milk supply and pricing

The annual milk intake by the Bega Cheese Group is approximately 600m litres, which about 6 per cent of total Australian milk production.

The Bega Cheese Group receives milk from about 500 Farmer Suppliers. The largest single Farmer Supplier represents just over 1 per cent of milk delivered. Traditionally, Farmer Suppliers do not have written, long term contracts relating to the supply of their milk, but effectively commit to a buyer on an annual basis.

The Bega Cheese Group also acquires milk from third party suppliers as and when required and available.

Milk pricing is traditionally set on a July to June financial year or “season” basis.

Milk pay rates applying to dairy farmers in NSW are influenced primarily by domestic drinking milk demands as the majority of NSW milk goes into that market. Therefore pay rates are set by processing companies at the commencement of the year and they only change in exceptional circumstances. This system provides these dairy farmers with certainty as to what price they will achieve for their milk and incentivises them to continue to produce milk throughout the year.



Source: Bega Cheese

Milk pay rates applying to dairy farmers in Victoria consist of opening pay rates together with allowances for deferred ‘loyalty’ payments announced to Farmer Suppliers during the year and depend on the operating performance of the business. This payment system enables Victorian based manufacturers to manage the risk of setting the pay rates too high at the beginning of the year, without knowing all of the variables that will affect the selling price of the products to be manufactured during the year. This is because a significant amount of Victorian milk is processed and exported and returns are dependent on a range of factors that can vary during the year.



Source: Bega Cheese

In both Victoria and NSW, the milk pay rates for the Group’s Farmer Suppliers comprise a number of different seasonal milk prices, which generally see higher pay rates in the winter months when costs to the farmers to produce milk are higher and lower pay rates in spring when costs to the farmers to produce milk is lower. These seasonal milk pay rates are designed to incentivise year-round milk production, and smooth out the seasonal milk production peak.

Milk prices are also adjusted to reflect the quality of the milk received at the factory and are set based on the composition of milk solids supplied (i.e. butterfat and protein).

Milk prices are set in a highly competitive environment. In NSW the major competitors for milk are dairy companies selling milk to satisfy the liquid milk market requirements. In Victoria the competitors for milk are mostly entities processing milk into cheese and other dairy products primarily for export markets, and prices therefore reflect global commodity returns and competition for product. Bega Cheese intends to continue its history of paying leading manufacturing milk prices. This is important to ensure security of supply in an environment where in recent years the number of dairy farms and herd numbers has contracted and milk pools have reduced.

Milk price decisions are made by the respective Bega Cheese and TMI Boards based on recommendations by management. The Company believes that it is in the interests of Shareholders that all Board members (including those who are Farmer Suppliers) are involved in milk pricing decisions due to its critical importance.

To ensure that the milk price paid by the Group is appropriate, the Board has adopted a new milk price policy effective from 1 July 2011. Under its previous structure the Company made additional distributions to Farmer Suppliers in the form of payments based on milk supplied to Bega Cheese. The Company has identified these payments and made appropriate pro forma adjustments to its financial results (see section 7.3.1) as if the new milk pricing policy outlined below had been in place since 1 July 2007. The Company confirms that under the new milk pricing policy, Farmer Suppliers will receive a price determined in accordance with that policy and will participate in future distributions of profits on the same basis as all Shareholders.

Bega Cheese Group Milk Price Policy – effective 1 July 2011

1. Introduction

A cornerstone of the development of the Bega Cheese business has been the organisation's understanding of, and focus on, retaining and growing milk supply.

The careful management and recognition of the changing environment dairy farmers operate in has seen Bega Cheese develop a close association with its suppliers. The organisation's capacity to respond to supplier concerns, deliver appropriate market signals and provide support on key issues will remain a core competency for the Company.

A long term, sustainable supply of milk ensures Bega Cheese's manufacturing facilities operate efficiently and competitively meet the short and long term needs of its customers.

2. Milk Price Policy and Milk Prices in Various Regions

Bega Cheese will consider the following issues in relation to the milk prices set for the various supply regions:

- a) place of origin – the significance of the place of origin of the milk used in manufacture of particular dairy products (for example, milk used in the manufacture of Bega branded cheese);
- b) financial returns from dairy products – the financial return expected to be earned from dairy products manufactured using milk supplied by the relevant farmers;
- c) sustainability of supply base – Bega Cheese will endeavour to ensure the long term sustainability of dairy farming in the relevant region;
- d) competitive circumstances – the competitive farm gate milk prices in each region.

3. Company of Choice

Bega Cheese endeavours to be the preferred company choice of dairy farmers in South Eastern Australia for the sale of their milk. The combination of a leading manufacturing milk price and innovative farm extension programs will be the key to attracting and retaining milk supply and keeping our farmer suppliers viable.

4.3 Quality assurance and compliance

4.3.1 Quality assurance systems

Product quality and customer service are core commitments of the Bega Cheese Group. The Group has a comprehensive set of systems designed to ensure the high quality of its products and compliance with regulatory

requirements. These systems include guidelines and procedures to ensure product quality and safety at each stage of production, from receipt of raw materials and packaging, through to the manufacturing process and the delivery of finished goods. Product specifications are also validated to ensure that customer requirements are satisfied.

In addition to its rigorous internal quality assurance systems, the Group is subject to regulatory compliance through licences applicable to its sites issued by the NSW Safe Food Authority and Dairy Food Safety Victoria.

The Group conducts regular audits of both its internal quality assurance systems and regulatory requirements to confirm both its ongoing compliance and its commitment to the highest standards of product quality and safety.

Despite the rigorous approach taken by the Group, product may occasionally be produced that is below customer expectations. In most instances this product is identified before it leaves the factory and can be either re-worked or sold to a lower specification level. In the last three years neither Bega Cheese nor TMI have had any product recalls of a material nature.

4.3.2 Environmental management

The Bega Cheese Group adopts a responsible and disciplined approach to the management of environmental issues associated with running large dairy processing facilities. The activities of the Bega Cheese Group require compliance with environmental regulatory requirements relating to the creation and disposal of waste, noise and air emissions.

The Company is developing an environment management system to ISO 14001 standards. All operations are subject to the various government licensing requirements and the Company works closely with government authorities, local environmental groups and corporate water authorities. There is also focus on compliance with voluntary programs such as the Australian packaging covenant and energy efficiency measures.

The environmental strategy for the disposal of liquid waste generated at the Ridge St, Lagoon St and Strathmerton Facilities is based on the spraying of waste water onto pasture areas. This strategy includes ongoing monitoring and interpretation of soil and ground water characteristics, nutrient and salinity budgeting and assessing physical soil and pasture indicators.

Liquid waste at the Coburg and Tatura Facilities is disposed of through facilities operated by Victorian water authorities. In this respect, Bega Cheese has an agreement with Yarra Valley Water Limited for the Coburg facility and TMI has an agreement with Goulburn Valley Regional Water Corporation in respect of the disposal of waste water from the TMI facility. These agreements require the control of chemical and physical qualities as well as the volume of waste water discharged into the water authorities' systems.

TMI has formulated a program of improvements to its facilities to address its management of waste water and ensure that TMI is able to comply with all aspects of its agreement with Goulburn Valley Regional Water Corporation. The anticipated costs associated with these proposed improvements total \$3 million, which is budgeted to be spent in the 2012 and 2013 financial years.

In addition to liquid waste, the Bega Cheese Group also has to ensure that air emissions from its powder facilities, storm water run-off and noise from general factory operations are controlled in a manner consistent with its environmental licences. The Group has a number of ongoing projects directed to compliance in these areas, with budgeted expenditure of approximately \$11 million over a four year period.

4.3.3 Safe working conditions for employees

The Bega Cheese Group has a sound occupational health and safety (OH&S) record. The business has invested significantly in plant, equipment and human resources in order to further bolster safety across all sites. Over the past five years these and related actions have seen the Group's safety performance continually improve, culminating this year with a workers' compensation insurance premium/wages ratio which is expected to be well under the manufacturing industry average.

The Bega Cheese Group will continue to focus on and invest in safety related initiatives in order to drive improved OH&S performance.



5. Risk Factors Associated With Investing

TMI: Multi-stage dryer.

5. Risk Factors Associated With Investing

All Applicants should assess the risk factors relevant to a decision to invest in Shares under this Prospectus, having regard to their particular circumstances. The following are the key risk factors associated with the Bega Cheese Group and an investment in Shares.

Risk factors relevant to the Bega Cheese Group

5.1 Background as a co-operative styled business

Bega Cheese has a long history as a successful supplier co-operative business. Although it changed its structure in 2008 from a co-operative to an unlisted public company, both shareholding and board control were retained by Farmer Suppliers. Upon the lodgement of this Prospectus, the Constitution will change into a form that complies with ASX Listing Rules. However, it will include a number of features reflecting the co-operative background of Bega Cheese, namely the requirement that the Board will comprise at least four Supplier Directors (out of a maximum of eight) and maximum limits on individual shareholdings in the Company. There are currently five Supplier Directors on the Board (see sections 1.7 and 6.1 for further details of the Directors).

As noted in section 6.4, the Supplier Directors have not been classified as independent within the terms of the ASX Corporate Governance Principles and Recommendations and accordingly, the Company will not comply with ASX Corporate Governance Recommendation 2.1, which provides that a majority of directors should be independent directors, or ASX Corporate Governance Recommendation 2.2, which provides that the chairperson of the board of directors should be an independent director.

The Board believes that it is well-placed to successfully transition to an ASX listed entity. It has commenced this process with:

- the appointment of a new independent director who is not a Farmer Supplier and the anticipated appointment of another independent director after the IPO;
- the appointment of an industry experienced CEO supported by a management team committed to profitable performance of the business; and
- the adoption of the corporate governance structures and processes described in section 6.

The Constitution sets a maximum shareholding limit of 5 percent for the first two years after listing, increasing to 10 percent from the end of the second year until the end of the fifth year, when the limit must be voted on by Shareholders. If the Shareholders approve the continuation of the shareholding limit, it will be 15 percent from the end of year five until the end of year ten, at which time it will cease to apply. The purpose of the shareholding limit is to provide shareholding stability for the Company for a minimum period following its listing on ASX and ensure that a controlling interest can only be acquired with the approval of a special resolution (75 percent vote) of Shareholders. However, the existence of the shareholding limit is unusual for a listed company and may adversely affect the value ascribed to Shares. As noted in section 9.4, if a person acquires Shares in excess of the limit, the right to vote and receive dividends in respect of the excess Shares will be suspended. Further the Constitution contains provisions that allow the Directors to require the sale of the excess Shares.

New Shareholders should also be aware that they will be in a minority compared with the Existing Shareholders. As most of the Existing Shareholders are current or former Farmer Suppliers, it is possible that they may take a different view as to what is in the best interests of the Company and the composition of the Board to some New Shareholders. A summary of the Shares on issue after the Offer is set out in section 2.1 and a table of the current major Shareholders is set out in section 9.9. If the Merger with TMI is completed, additional Farmer Suppliers will become Shareholders.

5.2 Milk supply and pricing

Bega Cheese Group relies on ongoing milk supply from its Farmer Suppliers. In turn, the Farmer Suppliers need suitable climatic conditions in order to produce pastures and source grain and hay/fibre to feed their dairy herds. Farmer Suppliers are not under long term supply contracts, and milk prices are usually set and communicated to Farmer Suppliers on an annual basis.

Farmer Suppliers are free to supply alternative buyers if they so wish. The price paid to Farmer Suppliers for their milk is a key factor in being able to attract and retain supply. Milk prices paid are a function of the returns that the Group can achieve for its dairy products. If the Group cannot achieve a return that enables it to be competitive, it may lose supply of milk from its Farmer Suppliers.

To ensure that the milk price paid by the Group is appropriate, the Board has adopted a new milk price policy effective from 1 July 2011. Under its previous structure the Company made additional distributions to Farmer Suppliers in the form of payments based on milk supplied to Bega Cheese. The Company has identified these payments and made appropriate pro forma adjustments to its financial results (see section 7.3.1) as if the new milk pricing policy outlined below had been in place since 1 July 2007. The Company confirms that under the new milk pricing policy, Farmer Suppliers will only receive a price determined in accordance with that policy and will participate in future distributions of profits on the same basis as all Shareholders.

5.3 International dairy commodity prices and foreign exchange risk

Dairy commodity prices fluctuate in accordance with global supply and demand. The market prices of core products of the Group such as cheddar cheese, cream cheese, milk powders and butter are all affected by the global commodities market, and to some extent, even those products not exported but traded within the domestic market are similarly affected. There is risk that a decline in commodity prices may reduce the prices at which the Group is able to sell its products, thereby adversely impacting Group earnings unless input prices for raw materials, including milk, can be adjusted to reflect this change.

Where dairy commodities are sold into export markets the predominant currency is the US dollar. Fluctuations in the Australian dollar as compared to foreign currencies have the potential to adversely impact the revenue and returns of the Bega Cheese Group.

Refer to section 7.5 for information about the sensitivity of changes in selling prices and exchange rates.

5.4 Reliance on major customers and exports

The businesses of both Bega Cheese and TMI rely on their ongoing commercial relationships with the major customers for which they manufacture and supply products. The scale of the Bega Cheese and TMI capabilities has enabled them to satisfy the substantial product requirements of large customers, such as Fonterra and Kraft Foods. However, while these major customer relationships represent a strength, the loss of a major customer could result in significant, adverse financial consequences, as it is likely to take some time to replace a major customer.

As noted in section 9.5.1, Bega Cheese and Fonterra have been reviewing various aspects of the FPSA for some time and have reached in principle agreement on certain changes to that document. While the parties intend to reflect their in principle agreement in a more detailed, legally binding document to be signed in the future, there is a risk that this will not be achieved. While the existing FPSA would continue to apply in those circumstances, Fonterra is only obliged to source Bega branded products and could potentially reduce the volume of other products that it sources from Bega Cheese.

As about 34 per cent of Group sales are exports, any imposition of trade barriers, regulatory requirements or other matters that would affect world trade may impact the Group's business.

5.5 Environmental risk

Bega Cheese Group, as with other dairy food manufacturers, generates noise, odour, waste and air emissions in the course of food production. These emissions are regulated by statute, licence and agreement that the Group has to comply with. While the Group has undertaken major investments to address emission issues and has implemented strategies to deal with some by-products and emissions, it may be required to take further action. Further expense will be incurred in the future to meet commitments to minimise adverse impact on the environment or comply with future requirements from environmental authorities and to changes to environmental regulations. There is a risk that production events could breach environmental/discharge licences or arrangements that the Group holds.

The Group is a large user of energy and is subject to legislation that requires it to review and seek to reduce its energy usage. The Company is currently assessing the impact of the recently announced carbon tax proposal. Preliminary analysis by the Company indicates that the new tax if implemented as proposed is likely to impact across the supply chain with some costs being passed through to customers and some impact on raw material suppliers. The Company's view is that at this early stage of implementation, it is difficult to quantify the impact but it is unlikely to be materially adverse to the Group's earnings.

5.6 Proposed full merger with TMI

The Company has signed a Merger Principles Agreement under which it has agreed to negotiate the acquisition of the thirty percent of TMI that it does not already own. This acquisition, subject to TMI Redeemable Preference Shareholder and court approval, will be implemented by way of a scheme of arrangement and will result in approximately 300 new shareholders in Bega Cheese, the majority being current TMI milk suppliers. Two TMI Supplier Directors will join the Bega Cheese Board on implementation of the Merger.

As outlined in section 9.3, certain details of the Merger including the number of Shares to be issued as consideration in exchange for TMI RPS are yet to be finalised.

While the issue of Shares to TMI Redeemable Preference Shareholders as a result of the implementation of the Merger will result in a dilution of the proportional holding by each Shareholder, Bega Cheese earnings on an after-tax basis are expected to increase due to the removal of the 30 percent non-controlling interest in TMI. It is the intention of the Board to ensure that the Merger will not be dilutive to Bega Cheese earnings in the first full year following its implementation.

If an appropriate outcome cannot be negotiated, Bega Cheese is under no obligation to proceed with the Merger and will continue operations in their current form.

5.7 Listing if maximum subscription is not achieved

The Company intends to accept applications up to 17,500,000 Shares (excluding the Employee Loyalty Offer). In the event that applications are below this amount the Company intends to accept all applications and proceed with the listing provided it meets the minimum ASX shareholder spread requirements. In the event that a lower number of Shares are issued, the proposed reduction of interest bearing debt will not be as high compared to the outcome if the maximum number of Shares were issued.

5.8 Supply of bulk cheese and nutritional formula products

Bega Cheese Group has a number of major customers who are required to provide bulk cheese and nutritional formula raw materials for processing. If for any reason major customers were unable to source adequate quantities of raw materials, this may impact the returns to Bega Cheese from its FMCG and nutritional operations. It should be noted that these customers are either major manufacturers of dairy products or have global procurement networks to ensure supply.

5.9 Commercial, operational and product risk

Bega Cheese Group may be subject to general commercial and operational risks including product defects, changes to market competition and events that interrupt production. Such events could adversely affect the Group's financial performance. Like many businesses, the Bega Cheese Group depends on the ongoing and efficient operation of its business systems, infrastructure and supply chain. The Group faces inherent risks including failure of machinery, energy supplies and computer equipment, industrial action and natural disasters. The Group maintains appropriate insurance policies in respect of most insurable risks in accordance with normal commercial practice.

Bega Cheese is the largest retail cheese processor and packer in Australia. It is possible that a new or existing dairy or food processor may build a new facility, acquire an existing operation or otherwise enter the markets in which the Group sells its products and seek to aggressively reduce the Group's existing market share. In addition, retailers may increase their direct import of foreign dairy products. Bega Cheese and some of its customers provide products to Australian supermarkets. Supply arrangements with supermarkets are subject to change with product margin pressure and the de-listing of stock lines having the potential to impact the Company's performance.

The Group's ability to remain productive, profitable, competitive and to effect its planned growth initiatives depends on its ability to attract and retain workers. Tightening of the labour market in key regions due to a shortage of suitably skilled workers may inhibit the Group's ability to hire and retain employees. The Group is also subject to Occupational Health and Safety regulations. If the Group is not able to maintain its working conditions to meet Occupational Health and Safety regulations it may impact its operations and ability to attract and retain workers and also result in contravention of those regulations, which may give rise to potential criminal and civil liability and also damage the Group's reputation.

5.10 Key personnel

Bega Cheese Group's success depends to a significant extent on its key personnel, in particular the senior management team described in section 6.2. These individuals have extensive experience in and knowledge of the Australian dairy industry and the Bega Cheese Group's business. Changes that adversely affect the Bega Cheese Group's ability to retain key personnel or an inability to recruit or retain suitable replacement or additional personnel could materially impact Bega Cheese Group's business, operational performance and financial results.

5.11 Product risk

As with all dairy food processors, the Group is exposed to the risk of product contamination and product recalls. The Group manages this risk by:

- testing and monitoring milk intake continually during and on completion of the production process;
- quality review procedures during manufacturing;
- external audit of operations systems by NSW Food Authority, Dairy Food Safety Victoria, Australian Quarantine and Inspection Service and some customers; and
- maintaining insurance cover against any third party claim where appropriate and cost effective to do so.

5.12 Credit risk

The Group conducts business with its domestic and international customers on normal commercial terms. These terms include trade credit for varying periods from payment up front to settlement up to 90 days after despatch of goods.

The Group has policies and procedures in place to manage credit risk, including risk assessments and/or credit checks on its customers. For some trade receivables the Group may also obtain security in the form of letters of credit. In addition, the Group obtains insurance over export debtors and Australian customers where appropriate and cost effective to do so.

5.13 Regulatory risk

Bega Cheese is required to comply with a range of laws and regulations, including laws and regulations specific to the dairy industry, competition, environmental, occupational health and safety, customs and tariff and taxation laws. Future changes to laws and regulations or accounting standards which apply to Bega Cheese could materially adversely affect Bega Cheese's future financial performance.

5.14 Interest paying debt

The Company and TMI have debt facilities with two separate financial institutions of circa \$155 million. The facilities are stand-alone and are not subject to cross charges or cross guarantees. Separate equitable mortgages and floating charges over all the assets and undertakings of the respective entities have been provided. A condition of these facilities is to comply with various covenants in respect of the financial position and performance of the respective entities.

Based on current cash flows, the Company and TMI have sufficient facilities to finance their respective operations. Where debt facilities are drawn down, the term and use of the loans is taken into account in deciding what proportion of the loan, if any, should be protected from interest rate movements by using interest swap arrangements. The underlying interest rate payable on borrowings is driven largely by factors outside the control of the Group. The Group generally maintains between 30 and 60 percent of its borrowings at a fixed rate using interest rate swaps and other arrangements. All borrowings are denominated in Australian dollars.

The working capital facilities (\$70 million) are generally negotiated with 12 to 18 month terms and renewed towards the end of each term or otherwise as required. Currently the working capital facilities are due to expire in December 2012 and the term loan facilities in mid-2014. The Group currently complies with all the financial covenants associated with its facilities. While the Group has no reason to expect that it will not be able to renew its facilities there is a risk of non-renewal or that terms and conditions of renewal may be less favourable than they are currently.

5.15 Force majeure events

Events such as acts of terrorism, an outbreak of international hostilities or natural disasters may occur within or outside Australia that have an impact on the Bega Cheese Group's business. Any such force majeure events may have a negative impact on the value of an investment in Bega Cheese Shares.

5.16 General economic conditions

The operating and financial performance of the Company is influenced by a variety of general domestic and world economic and business conditions, inflation, interest rates, exchange rates, access to debt and equity capital markets, and government fiscal, monetary and regulatory policies. A prolonged deterioration in any number of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions, growth prospects and share price of Bega Cheese.

Risk factors relevant to Shares

5.17 No guarantee of dividends

There is no guarantee that dividends will be paid on Shares in the future as this is a matter that depends on the financial performance of the Group.

5.18 Stock market risks

Potential investors should recognise that there are risks associated with any investment in shares. The price at which Shares may trade on ASX may vary depending on the financial performance of the Group and various external factors. In particular there is a risk that the price at which Shares trade on ASX may be less than the price payable for Shares under this Prospectus. Further, there is no guarantee that an active, liquid market in the Shares will develop.

6. *Management, Staff & Corporate Governance*



Lagoon St Facility
string cheese line.

6. Management, Staff & Corporate Governance

6.1 Board

The Board brings relevant experience and skills including FMCG, financial management and corporate governance. As at the date of this Prospectus, the Bega Cheese Board comprises:

<i>Name</i>	<i>Position</i>	<i>Supplier</i>	<i>Independent</i>
Barry Irvin	Executive Chairman	Yes	No
Maxwell Roberts	Non-Executive Director	Yes	No
Richard Parbery	Non-Executive Director	Yes	No
Thomas D'Arcy	Non-Executive Director	Yes	No
Richard Platts	Non-Executive Director	Yes	No
Peter Margin	Non-Executive Director	No	Yes

An additional independent Director, with financial qualifications and experience is expected to be appointed shortly after the IPO.

If the Merger is implemented as proposed, Bega Cheese has agreed for two current directors of the TMI Board (who are not current Directors or executives of the Company) to join the Bega Cheese Board. These Directors would be Supplier Directors of the Company. The current Directors believe that the preferred size of the Board is eight, and will maintain this number by not replacing an existing Supplier Director who intends to retire to facilitate the acceptance of the two TMI Directors onto the Board.



Barry Irvin, AM
Executive Chairman

Mr Irvin has been Chairman of Bega Cheese since 2000 and Executive Chairman since 2008. Mr Irvin has led the Bega Cheese executive teams in the implementation of strategies, initiatives and acquisitions that have driven Bega Cheese's success and growth.

Mr Irvin is recognised globally for his extensive knowledge of the Australian dairy industry and speaks regularly at international conferences. He was awarded the NAB Agribusiness leader of the year in 2009 and was appointed a Member of the Order of Australia for service to the dairy industry and to children with disabilities and their families in 2008. Mr Irvin continues to have involvement in his family's dairy farming business and as such has a thorough knowledge of the dairy industry supply chain from production through to manufacture and sales.

Following Aidan Coleman's May 2011 appointment as CEO, Mr Irvin will continue as Executive Chairman providing direction for the CEO and the Group to ensure that it meets its long term strategies including financial, organisational and cultural goals. The Executive Chairman will be pivotal in leading key strategic business activities centred on the evolving Group structure, public and stakeholder relations and stewarding major customer and alliance relationships.

Mr Irvin is also:

- Director and deputy chairman of CCFA
- Director and Chairman of TMI
- Director of WCB
- Director of the Gardiner Foundation, a Victorian dairy industry group that invests in projects that have positive impact on the dairy industry and the wider community
- Director and Chairman of Giant Steps Sydney Limited, an educational and therapy centre for children with autism.



Maxwell Roberts

Mr Roberts has been involved in the dairy industry for many years, including agripolitical, board representation and direct dairy farming activities. Moving from an initial career in journalism, Mr Roberts was a director of Milk Marketing NSW Pty Ltd, Chairman of NSW Farmers Inc dairy section and Vice President of Australian Dairy Farmers Federation. Mr Roberts is currently Chairman of Dairy Australia Limited.

Mr Roberts is an active dairy farmer and his responsibilities in serving the Company include:

- Director since 1983
- Deputy Chairman from 2000 to 2011.



Richard Parbery, FCPA

Mr Parbery is a Managing Partner of a successful regional accounting practice, is a Fellow of the Australian Society of Certified Practising Accountants, a registered company auditor, registered tax agent and a Justice of the Peace NSW. Mr Parbery is experienced in servicing many agricultural and general business clients.

Mr Parbery is also heavily involved in a number of family businesses and investments, including a major dairying business. His responsibilities in serving the Company include:

- Director since 1988
- Deputy Chairman from 2000 to 2011
- Member of the Audit and Risk Committee

Mr Parbery is also:

- Director of TMI since April 2007
- Chairman of the TMI Finance Committee.



Thomas D'Arcy, Dip. App. Sc (Dairy Tech), Dip Ag, GAICD

Mr D'Arcy has a Diploma in Dairy Technology and Agriculture and is a member of the Australian Institute of Company Directors. Following graduation Mr D'Arcy worked in quality control at Bega Cheese and ultimately became responsible for management of quality systems until he left in 1977. Mr D'Arcy extended his knowledge of international dairy practices by working for the International Agricultural Exchange in Alberta Canada before returning to Australia to manage his family's farming business.

Mr D'Arcy has actively represented farmers on many state and federal committees designed to address key and emerging issues in the Australian dairy industry.

Mr D'Arcy is an active dairy farmer and his responsibilities in serving the Company include:

- Director since 1998
- Member of the Audit and Risk Committee.



Richard Platts, Adv Dip Agr; GAICD

Mr Platts has been representing farmers for over twenty years, through various roles in the NSW Dairy Farmers Association, Dairy Industry Development Corporation and Dairy Farmers Co-operative.

Mr Platts has a background in agriculture, has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors.

Mr Platts is an active dairy farmer and his responsibilities in serving the Company include:

- Director since 2000.



Peter Margin, MBA, BSc (Hons)

Mr Margin joined the Bega Cheese Board on 27 June 2011. He has many years of leadership experience in major Australian and international food companies.

His most recent position was the CEO of ASX-listed food group Goodman Fielder Ltd from 2005 until April 2011.

Prior to that appointment he was the CEO and Chief Operating Officer of National Foods Ltd and has had prior experience at Heinz, Birds Eye Foods and Plumrose.

6.2 Senior management

Bega Cheese has an experienced team of executives leading the business. A summary of the experience and capabilities of the CEO and members of the senior executive team are provided below.



Aidan Coleman, BA, BBS, GAICD
(Chief Executive Officer)

Aidan was appointed CEO effective 10 May 2011. He has 27 years of experience in the international marketing and manufacturing of consumer dairy products and dairy ingredients primarily in Australia, New Zealand, China, Japan, South East Asia, Latin America and the Indian sub-continent.

Aidan has held positions including Manager Director–Fonterra Brands Australia, CEO of Bonland Dairies-Australia, Managing Director of New Zealand Milk in Sri Lanka and was General Manager of the Consumer Foods business of Tatura Dairy Cooperative in New Zealand. In 2008 he was appointed CEO of TMI and has been part of the Bega Cheese executive group since that time.

He holds a Bachelor of Arts in economics and psychology from Auckland University and a Business Degree in marketing from Massey University in New Zealand, as well as being a graduate of the Australian Institute of Company Directors. Since 2009, Aidan has been a director of Dairy Innovation Australia Limited, an industry funded research/innovation organisation.

Details of the CEO's employment contract are set out in section 9.19.



Maurice Van Ryn, B.Bus. (Acc.)
(General Manager – Sales and Marketing)

Maurice joined the Bega Cheese Group in 1986 initially as group accountant and company secretary and has 25 years of experience with the company. He was the CEO from 1990 to 2005. He then took responsibility for sales and marketing including the export activities of Bega Cheese and apart from a brief secondment to be CEO of TMI between 2007 – 2008 has continued in that role.

At present, he is the longest serving senior executive within the Bega Cheese Group and has a wide ranging experience across all facets of the Bega business.

Maurice holds non-executive Board positions in two small listed ASX companies. However, his time is substantially dedicated to his role at Bega Cheese.



Colin Griffin, CA, BA in Accounting
(Chief Financial Officer/Company Secretary/Bega Brand Franchise Manager)

Born in Bega, Colin completed a BA (Accounting) in 1985 and obtained his Chartered Accountant membership in 1998. With a background in auditing and corporate advisory at KPMG, Colin joined the Bega Cheese team as Finance Manager and Company Secretary in 1993.

With 18 years' experience, Colin has led the finance team and is responsible for corporate development, mergers and acquisitions and legal affairs for both Bega and TMI. He is a director of TMI and CCFA.

In addition, he is responsible for the stewardship of the Bega brand franchise agreement and is the relationship manager for Fonterra.



Sean Moran, Dip. App. Sc. (Dairy)
(General Manager – Processing and Packaging)

Sean started his career in the dairy industry in New Zealand in 1984. He moved to Australia where he joined Tatura Milk in 1988 and had several senior management roles in manufacturing and logistics.

Sean joined Bega Cheese in July 2005. His current role is the responsibility for the operations at the process and packaging facilities at both the Ridge St and Strathmerton sites.



Grattan Smith, B.Bus.
(General Manager – Supply Chain)

Grattan joined Bega Cheese in December 1997. He has over 25 years of industry experience in logistics and supply chain including retail, manufacturing and contract warehousing and distribution. Grattan's varied roles have encompassed all aspects of the supply chain including inventory management, purchasing, planning, import/export/transport and warehouse management.

He is currently responsible for all supply chain (non-milk) activities across the Bega company sites.



Matthew Fanning, B Ec
(General Manager – Human Resources)

Matt joined Bega Cheese in January 2000. He currently holds responsibility for all human resources activities at Bega, Strathmerton and Coburg. Prior to joining the Company he worked with a number of large organisations in human resources and industrial relations roles.

He has a Bachelor of Economics from Monash University and has undertaken post-graduate studies in human resources related areas.



John Hicks, GAICD
(General Manager – Manufacturing and New Business Development)

John joined Bega Cheese in January 2001 as a Project Manager, after five years' experience with a major UK dairy company. In 2002 he became the Site Manager Dairy Products Unit and in 2007 was appointed as GM Operations Tatura Milk Industries.

He was appointed to his current position in 2009 and currently holds responsibility for the Lagoon St and Coburg Facilities, in addition to ongoing development of new business opportunities.

John is a graduate of the Australian Institute of Company Directors.



Michael Hampson, CA, BBus (Acct)
(General Manager – Commercial)

Michael joined Bega Cheese in April 2003 as Manager, PPU Finance. He assumed the Commercial Procurement function in December 2005 as Manager, Commercial Finance. He was seconded to TMI in April 2007 as CFO/General Manager – Commercial assuming all finance responsibilities, IT, procurement, supply chain and major commercial negotiations. He returned to Bega Cheese in May 2009 as General Manager – Commercial

Michael's current activities are financial management of the FMCG business, including financial responsibility of the Strathmerton Facility, procurement across the Group, and relationship manager to Kraft Foods.

He has a Bachelor of Business (Accounting), Charles Sturt University and is a Chartered Accountant.



Paul van Heerwaarden, MBA, CPA, BBus (Acct)
(TMI Executive General Manager)

In May 2011 Paul was appointed TMI Executive General Manager after two years as Chief Financial Officer. Previously Paul worked in senior financial and management positions with a number of Australian and international agribusinesses.

He has a MBA from the Melbourne Business School and a Bachelor of Business (Accounting), RMIT and is a CPA.

Senior Management Employment Arrangements

Bega Cheese's senior executives are employed under individual contracts of employment. The contracts establish:

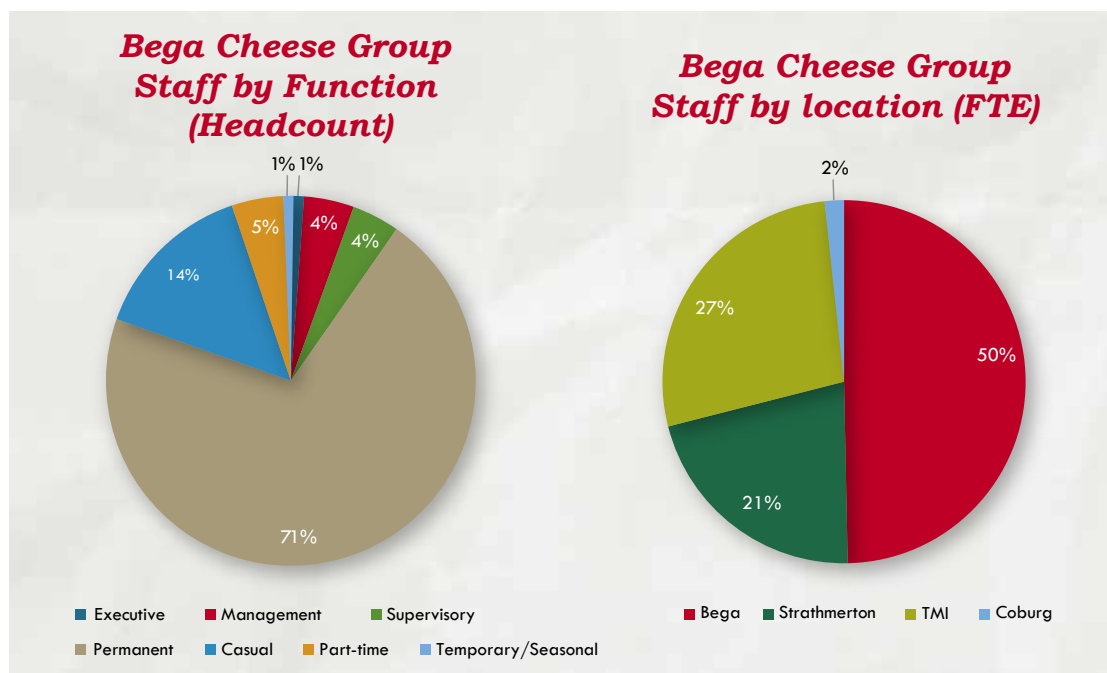
- The individual's total fixed compensation, which includes fixed cash remuneration and the Company's superannuation contribution;
- Eligibility to participate in Bega Cheese's short term incentive program (e.g. annual incentives);
- Notice and termination provisions; and
- Leave entitlements and other employment related matters.

Bega Cheese makes contributions with respect to the senior executives to complying superannuation funds, in accordance with relevant superannuation legislation. Bega Cheese contributes at a rate for senior executives with regard to its obligations under:

- Relevant superannuation legislation (i.e. at least 9 percent of ordinary time earnings); and
- Individual contracts of employment which provide for a total superannuation contribution by the Company of between 10 percent and 15 percent of ordinary time earnings to be paid, depending on the salary package.

6.3 Employees

Bega Cheese aims to be a world class employer offering appropriate rewards and recognition to its workforce, and developing leaders who operate with integrity and professionalism. The Group employs nearly 1,400 people. As at 31 May 2011 the number of staff employed by location and function was as follows:



Source: Bega Cheese

Staffing numbers across the group as at 31 May 2011 were:

Facilities	Total Employees	FTE Employees
Lagoon St and Ridge St (including corporate and administration functions)	693	649
Strathmerton	279	279
Coburg	31	22
Tatura	391	356
Total	1,394	1,306

Bega Cheese Group has a long history of stable and respectful relations with its employees and their union representatives. Industrial disputes have been extremely rare, with negligible business interruption. As the business has grown in size and geographic spread, the same operating approach continues to be applied in order to provide harmonious working environments. There has been no material industrial action over the past three years.

Bega Cheese makes superannuation contributions in respect of employees in accordance with superannuation legislation.

The main Enterprise Business Agreements are listed in the table below:

Facility	Name	Coverage	Union(s)	Expiry Date
Lagoon St and Ridge St	Bega Cheese Employees and Unions Enterprise Agreement 2010	Production	Australasian Meat Industry Employees Union/Australian Manufacturing Workers Union/Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia	11 July 2013
Strathmerton	Bega Cheese Strathmerton ETU/AMWU Enterprise Agreement 2009	Maintenance	Australian Manufacturing Workers Union/Electrical Trades Union	17 December 2012
Strathmerton	Bega Cheese Strathmerton Plant Production Employees Comprehensive Agreement 2010-2013	Production	National Union of Workers	30 September 2013
Coburg	Bega Cheese (Coburg) Enterprise Agreement 2011	Production	National Union of Workers	5 April 2014
Tatura	Tatura Milk Industries Limited and the National Union of Workers Production and Warehouse Enterprise Agreement 2010	Production	National Union of Workers	31 March 2013
Tatura	Tatura Milk Industries Limited and Metal and Electrical Trades Union Enterprise Agreement 2011	Maintenance	Australian Manufacturing Workers Union/Electrical Trades Union	31 January 2014

6.4 Corporate governance

The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return and sustaining the growth and success of the Bega Cheese business and the Bega brand.

In conducting business with these objectives, the Board will ensure that Bega Cheese is properly managed to protect and enhance Shareholder interest, and that Bega Cheese, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted corporate governance policies and practices designed to promote the responsible management and conduct of Bega Cheese.

The Board acknowledges that as part of the IPO, new investors who are not Farmer Suppliers will become Shareholders. The Board will act in accordance with its Board Charter and the Corporations Act to enhance value for all Shareholders as it has done since the conversion of Bega Cheese from a co-operative to an unlisted public company in 2008. The Board also recognises that maintaining a secure supply of milk is important for the Company, therefore it will continue to endeavour to pay a leading manufacturing price for its milk in accordance with its milk pricing policy.

ASX Corporate Governance Council's Corporate Governance Principles and Recommendations defines an "independent director" as a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or be perceived to materially interfere with – the independence of their judgment. Although the Supplier Directors are also suppliers of milk to the Company, they do so on the same terms as all other milk suppliers in the same region and the Company's procedures and systems ensure that milk prices are set according to the commercial interests and needs of the Company. However, despite this, the Board recognises that there may be a perception that the milk supply relationship between Supplier Directors and Bega Cheese may influence the decision making of those directors. Accordingly, the Supplier Directors have not been characterised as independent within the terms of ASX Corporate Governance Principles and Recommendations.

This means that the Board will not comply with ASX Corporate Governance Recommendation 2.1, which provides that a majority of the Board should be independent Directors, or ASX Corporate Governance Recommendation 2.2, which provides that the chairperson of the board should be an independent Director. The Board has appointed one new external, independent Director and intends to appoint a second external, independent Director shortly after the listing. With these additions, the Board will be well placed to oversee the Group's business and its future development. The Board believes that Barry Irvin is the right person to continue to perform the role of chairperson, even though he is not classified as independent according to ASX Corporate Governance Principles and Recommendations. As the Constitution provides for a Board of up to 8 Directors with a minimum of 4 Supplier Directors, the Shareholders will be in a position to determine the composition of the Board in the future.

The main policies and practices adopted by Bega Cheese are summarised below. In addition, many governance elements are contained in the Constitution. Details of Bega Cheese's key policies and practices and the charters for the Board and each of its committees are available at www.begacheese.com.au.

TMI operates under its own corporate governance arrangements that are appropriate for its operation as a 70 percent owned subsidiary. These include its own Board committees and management structure. Where appropriate, code of conduct type policies have been made consistent with Bega Cheese policies. Appropriate rationalisation of all policies will occur following the completion of the Merger.

6.5 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board. The charter addresses the following matters and responsibilities of the Board:

- enhancing Shareholder value;
- oversight of the Bega Cheese Group, including its control and accountability systems;
- appointing, removing and monitoring the performance of the CEO (or equivalent);
- ratifying the appointment, and where appropriate, the removal of the senior executives;
- input into and approval of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management, internal compliance and control, codes of conduct and legal, regulatory and best practice corporate governance compliance;
- considering the social, ethical and environmental impact of the Group's activities and operations and setting standards and monitoring compliance with social responsibilities and practice;
- monitoring senior management's performance and implementation strategy, and seeking to ensure appropriate resources are available;
- determining dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving budgets; and
- approving and monitoring financial and other reporting.

6.6 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. Standing committees established by the Board are the Audit and Risk Committee and the Nomination and Remuneration Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Bega Cheese, relevant legislative and other requirements and the skills and experience of individual Directors.

Audit and Risk Committee

The Board's intent is to comply with the composition requirements of ASX Corporate Governance Recommendation 4.2, namely that the committee consist only of non-executive directors, of whom a majority are independent Directors and is chaired by one of those independent Directors. The Board will implement these composition requirements as soon as practical.

The role of this committee includes:

- overseeing the process of financial reporting, internal control, financial and non-financial risk management and compliance and external audit;
- monitoring Bega Cheese's compliance with laws and regulations and its own policies;
- ensure that the relationship between Bega Cheese and its external auditor remains independent; and
- evaluating the adequacy of processes and controls established to identify and manage areas of potential risk.

Nomination and Remuneration Committee

Under its charter, the Nomination and Remuneration Committee must have at least three members. The main functions of the Committee are firstly to assess and make recommendations to the Board regarding Board composition with a view to ensuring it is able to operate effectively and efficiently and to adequately discharge its responsibilities and duties, and secondly to advise and assist the Board to ensure that Bega Cheese:

- has coherent remuneration policies and practices which enable Bega Cheese to attract and retain executives and Directors who will create value for Shareholders and that support Bega Cheese's wider objectives and strategies;
- fairly and responsibly remunerates Directors and executives, having regard to the performance of Bega Cheese, the performance of the executives and the general remuneration environment; and
- has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet Bega Cheese's needs.

6.7 Risk management policy

The identification and proper management of Bega Cheese's risk are important priorities of the Board. Bega Cheese has adopted a risk management policy appropriate for its business. This policy highlights the risks relevant to Bega Cheese's operations, and Bega Cheese's commitment to designing and implementing systems and methods appropriate to minimise and control its risk. The Audit and Risk Committee is responsible for monitoring and assessing the effectiveness of Bega Cheese's risk management systems.

6.8 Diversity policy

The Board has adopted a diversity policy which provides a framework for Bega Cheese to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives.

6.9 Continuous disclosure policy

Bega Cheese is committed to observing its disclosure obligations under the Listing Rules and Corporations Act. Bega Cheese has adopted a policy which establishes procedures which are aimed at ensuring that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

6.10 Securities trading policy

Bega Cheese has adopted guidelines to take effect from listing for dealing in securities which are intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and to establish a best practice procedure in relation to Directors', management's and employees' dealings in Shares.

Subject to the overriding restriction that persons may not deal in Shares while they are in possession of material price-sensitive information, Directors and management will only be permitted to deal in Shares outside of certain prohibited periods which generally include the period before the release of Bega Cheese's full and half year financial results. Outside of these prohibited periods, Directors and management must receive clearance for any proposed dealing in Shares.

6.11 Code of conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal code of conduct, to be followed by all employees and officers. The key aspects of this code are to:

- act with honesty, integrity and fairness and in the best interest of Bega Cheese;
- act in accordance with all applicable laws, regulations, policies and procedures; and
- use Bega Cheese resources and property properly.

6.12 Communications with Shareholders

Bega Cheese is committed to keeping Shareholders informed of all major developments affecting Bega Cheese relevant to Shareholders and in accordance with all applicable laws. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and publishing information on Bega Cheese's website (www.begacheese.com.au).

In particular, Bega Cheese's website will include media releases, key policies and Board Committee charters. All relevant announcements made to the market and any other relevant information will be posted on Bega Cheese's website as soon as it has been released to ASX.

6.13 Deeds of access and indemnity

Each Director will enter into a deed of access and indemnity with Bega Cheese. Refer section 9.18 for details.



Ridge St Facility processed cheese slice on slice production.



Coburg Facility bulk cheese production.

7. Financial Information



Ridge St Facility:
Laser guided robotic forklift.

7. Financial Information

This section contains a summary of the historical and forecast financial information of Bega Cheese Group (together the **Financial Information**).

The **Historical Financial Information** comprises the:

- Pro forma consolidated income statements of Bega Cheese Group for FY2008, FY2009, FY2010, H1 FY2010, and H1 FY2011 together with a reconciliation to the reported net profit before tax (see section 7.3);
- Pro forma consolidated cashflow statements of Bega Cheese Group for FY2008, FY2009 and FY2010 (see section 7.6); and
- Consolidated historical and pro forma statement of financial position of Bega Cheese Group as at 26 December 2010 (see section 7.7).

The **Forecast Financial Information** comprises the:

- Pro forma consolidated forecast income statement of Bega Cheese Group for FY2011, together with a reconciliation to the statutory consolidated forecast net profit before tax of Bega Cheese Group for FY2011 (see section 7.3); and
- Pro forma consolidated forecast cash flow statement of Bega Cheese Group for FY2011 (see section 7.6).

Also summarised in this section are:

- The basis of preparation of the Financial Information (see section 7.1); and
- The Directors' best estimate assumptions underlying the Forecast Financial Information (see section 7.4)

The Financial Information has been reviewed by PwC Securities Ltd, whose Investigating Accountants Report is contained in section 8.

The information in this section should be read in conjunction with the risk factors set out in section 5, significant accounting policies relevant to the Financial Information contained in the Section 10 and other information contained in this Prospectus.

7.1 Basis of preparation and presentation of the Financial Information

The Financial Information included in this section has been prepared and presented in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, except where otherwise disclosed in this section. The Financial Information reflects Bega Cheese's ownership of 70 percent of TMI, the results of which are consolidated by Bega Cheese. Accordingly, the 30 percent non-controlling interest is shown as a separate line item in the income statement. Throughout this section additional disclosures have been included to highlight the economic impact of the non-controlling interest on selected measures of performance.

The Financial Information is presented in an abbreviated form and does not contain all of the disclosures provided in an annual report prepared in accordance with the Corporations Act.

7.1.1 Preparation of Historical Financial Information

In preparing the Historical Financial Information, adjustments set out in section 7.3.4 were made to the audited results of Bega Cheese Group that were considered appropriate to reflect the Group's current operations and to eliminate certain non-recurring items. The historical income statements have also removed the tax expense given the changed tax profile of the Group that will occur following the listing of Bega Cheese.

During the period Bega Cheese made two significant acquisitions, being the Coburg Facility (October 2008) and the Strathmerton Facility (March 2009). The Financial Information reflects the results of these businesses from the respective dates of acquisition.

7.1.2 Preparation of Forecast Financial Information

The Directors believe they have prepared the Forecast Financial Information with due care and attention, and consider all best estimate, assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. The Forecast Financial Information has been prepared on the basis of numerous assumptions, including the key best estimate assumptions set out in section 7.4. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The Forecast Financial Information is based on the actual results of Bega Cheese Group for the nine months to 27 March 2011 as shown in the unaudited management accounts and a forecast for the remaining three months of FY2011. The actual results to 27 March 2011 incorporate the results of Bega Cheese Group for the six months to 26 December 2010 which were reviewed by the Auditors.

Interest expense included within the FY2011 Forecast reflects the annualised effect of the proposed capital and debt structure of Bega Cheese Group following the Offer as if it were in place from 1 July 2010 (refer to section 7.3.4). The FY2011 Forecast assumes that the incremental costs of Bega Cheese Group operating as a listed company were incurred from 1 July 2010 whilst the tax expense reflects the expected ongoing tax profile of Bega Cheese Group. Bega Cheese Group acquired a 15 percent interest in WCB during November and December 2010, and the FY2011 Forecast reflects the interim dividend of \$0.3 million paid to the Group in March 2011.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on Bega Cheese Group's actual financial performance or financial position. Investors are advised to review the key best estimate assumptions set out in section 7.4, in conjunction with the sensitivity analysis set out in section 7.5, the risk factors set out in section 5 and other information set out in this Prospectus.

7.2 Impact of the Merger with TMI

The Merger of Bega Cheese and TMI after the IPO will result in the removal of the non-controlling (or minority) interest computation in the Group consolidated financial results. There will be no impact on the Group EBITDA, EBIT and profit before tax as these items already include 100 percent of TMI results as part of the Group consolidation.

The impact of the Merger on Group financials is expected to be primarily:

- the issued capital of Bega Cheese will increase as it is expected that Shares will be issued in exchange for the shares held by TMI Redeemable Preference Shareholders; and
- the removal of the non-controlling interest component in the income statement and balance sheet.

As the merger relativities have not been agreed as at the date of this Prospectus, it is not possible to provide a reasonable estimate of the financial impact of the Merger.



TMI warehouse.

7.3 Financial performance

The table below provides a summary of the pro forma historical financial performance of the Group for the three years ended 30 June 2010 together with the pro forma forecast financial performance of the Group for the period ending 30 June 2011.

Summary of Historical and Forecast Financial Performance

<i>Financial Performance</i>	<i>Pro forma Historical</i>	<i>Pro forma Historical</i>	<i>Pro forma Historical</i>	<i>Pro forma Forecast</i>
\$'000	FY2008	FY2009	FY2010	FY2011
Revenue	701,157	803,588	834,188	942,817
EBITDA	56,266	34,558	54,781	53,425
EBITDA as a % of Revenue	8.0	4.3	6.6	5.7
Depreciation and amortisation	(13,656)	(16,056)	(20,636)	(21,540)
EBIT	42,610	18,502	34,145	31,885
EBIT as a % of Revenue	6.1	2.3	4.1	3.4
Interest paid (net of interest income)¹	(5,924)	(8,538)	(9,704)	(6,406)
Profit before tax²	36,686	9,964	24,441	25,479
Less pro forma tax expense³				7,644
Pro forma after tax				17,835
Less Non-controlling interest⁴				2,827
Net profit attributable to Shareholders				15,008
EBITDA (excluding 30% of TMI's EBITDA)	47,246	33,299	47,971	46,610

Notes:

(1) Interest expense included in pro forma FY2011 Forecast assumes capital raising and debt restructure following the Offer were in place from 1 July 2010.

(2) Includes 100% of TMI profit before tax.

(3) Following the listing the tax status of TMI will change. As a result it is expected that the annual tax expense of the Bega Cheese Group will increase to be in line with the corporate tax rate (currently 30 percent). Accordingly, the financial summary of historical information is presented on a pre-tax basis. Whilst for the FY2011F Forecast a pro forma tax expense of 30 percent has been applied.

(4) Represents the 30 percent pro forma after tax FY2011F income of TMI.

7.3.1 Divisional performance

The table below provides a split of revenue and EBITDA by Bega Cheese and TMI. The profit effect of inter-company transactions (including dividends) have been eliminated.

Financial Performance	Pro forma Historical	Pro forma Historical	Pro forma Historical	Pro forma Forecast
\$'000	FY2008	FY2009	FY2010	FY2011
Bega Cheese				
Revenue	361,477	495,922	564,371	633,702
EBITDA	26,200	30,361	32,081	30,707
EBITDA as a % of Revenue	7.2%	6.1%	5.7%	4.8%
TMI				
Revenue	339,680	307,666	269,817	309,115
EBITDA (including non-controlling interests share)	30,066	4,197	22,700	22,718
EBITDA as a % of Revenue	8.9%	1.4%	8.4%	7.3%
EBITDA – TMI (excluding 30% of TMI EBITDA)	21,046	2,938	15,890	15,903

Refer to section 7.3.5 for a commentary on performance. However, note that Bega Cheese's FMCG business provides a relative stable earnings profile compared to TMI where earnings are more variable due to exposure to international dairy commodity and foreign exchange price movements as is evident by the relative movements of earnings in the years FY2008 and FY2009.

7.3.2 Half year performance

The table below provides the financial performance of the Bega Cheese Group for the 6 months to December 2009 and 2010 respectively. Commentary of the performance is in section 7.3.5.

Financial Performance	Pro forma Historical	Pro forma Historical
\$'000	Six months to 27 December 2009 (H1 FY2010)	Six months to 26 December 2010 (H1 FY2011)
Revenue	394,607	484,646
EBITDA	26,510	30,866
Depreciation and amortisation	(9,854)	(10,307)
EBIT	16,656	20,559
Interest paid (net of interest income)	(4,539)	(4,726)
Pro-forma profit before tax¹	12,117	15,833

Note: (1) Includes 100% of TMI profit before tax.

7.3.3 Seasonality

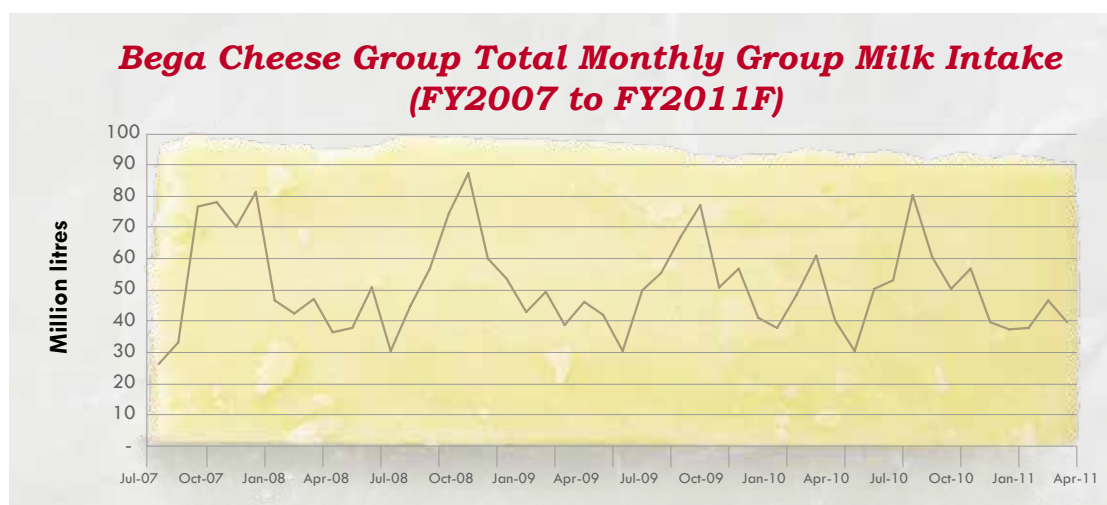
Bega Cheese and TMI both operate dairy manufacturing businesses which are subject to seasonality and operating conditions that vary from the first half of the financial year ending December to the second half ending June. These seasonality issues also affect other participants in the Australian dairy industry. The extent to which these seasonality issues affect the financial performance of the Group is as follows:

- **Milk intake and plant throughput**

The majority of the milk purchased by the Group is sourced directly from Farmer Suppliers. These suppliers generally produce more milk in spring (September to November), when seasonal conditions for herd health and growing pasture based feed are most favourable. This results in milk intake peaking at both Bega Cheese and TMI in late October each year, with milk intake slowly decreasing from that point forward.

The Group structures milk payments to Farmer Suppliers so as to incentivise farmers to produce milk outside of the spring peak. This is achieved by paying higher rates per kilogram of milk solids (or cents per litre) in winter and autumn. Both Bega Cheese and TMI look to purchase additional milk from other dairy companies and milk traders, who sell their 'surplus' milk. Milk from other dairy companies and milk traders is generally more readily available in the period from September to November each year. The Group looks to establish appropriate arrangements, including formal documented agreements where necessary, to procure milk from non-farmer suppliers at the beginning of each financial year. This provides some certainty of milk flows throughout the spring peak and beyond.

The overall outcome from these milk supply arrangements is that more milk is received in the six months to December than in the following six months to June. Provided below are graphs demonstrating the total milk intake for each company by month for the last 3 years.



Source: Bega Cheese Group.

The higher milk inflows in the December half year generally has a positive impact on the Group's dairy manufacturing business, as a result of higher volumes through the plants, improved operating efficiency and overhead absorption and better overall average cost of goods manufactured. This generally sees the operating result for the dairy manufacturing operations being better in the December half year than for the June half year.

- **Cut and pack businesses**

Bega Cheese's processing, cutting and packing business is less susceptible to seasonal variation than its dairy manufacturing operations, given its activities are not reliant on monthly milk flows.

The combined impact of these factors has meant that the first half of FY2011 reflected 51 percent of forecast revenue and approximately 62 percent of forecast net profit before tax of the full year FY2011.

7.3.4 Reconciliation to statutory financial statements

In presenting the Financial Information, adjustments to the reported results have been made to exclude the impact of one-off items and other normalisation adjustments.

	<i>Pro forma Historical/Forecast</i>				<i>Pro forma Historical</i>	
	<i>12 months</i>				<i>6 months</i>	
	FY2008	FY2009	FY2010	FY2011	H1 FY2010	H1 FY2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Statutory Profit before income tax	36,686	12,005	21,799	20,737	10,421	14,161
Adjustments						
1. Add back impairment of goodwill expense	-	3,615	-	-	-	-
2. Remove discount on acquisition	-	(8,730)	-	-	-	-
3a. Add back total RMPP	-	11,771	6,605	6,497	3,917	3,841
3b. Deduct the expense component of RMPP		(4,416)	(3,963)	(4,240)	(2,221)	(2,169)
4. Remove investment transactions	-	(4,281)	-	-	-	-
5. Incremental public company costs	-	-	-	(1,338)	-	-
6. Adjust interest expense for IPO capital raising	-	-	-	1,868	-	-
7. Employee Loyalty Offer expense	-	-	-	1,080	-	-
8. IPO related costs	-	-	-	875		
Pro forma profit before income tax	36,686	9,964	24,441	25,479	12,117	15,833

1 Reflects the impairment of goodwill on the acquisition of a business and related assets in FY2009.

2 Reflects the discount on acquisition on the purchase of a business in FY2009.

3 Bega Cheese made payments to its Farmer Suppliers in these periods described as Regional Milk Price Premiums (RMPP). This item comprised separately identified payments to Bega Cheese Farmer Suppliers for actual milk delivered in excess of the estimated average price of milk paid to dairy farmers of other entities and in some years it also included a specific drought relief payment. Whilst it was effectively a distribution paid to Farmer Suppliers based on milk delivered (rather than shares) it was treated as a separate expense line in the calculation of reported profit before tax.

With effect from 1 July 2011 Bega Cheese will adopt a new milk payments policy which will no longer recognise RMPP separately. Accordingly, the Board and management have reviewed previous payments to determine that the results reflect consistent outcomes based on how they intend to implement the new milk pricing policy going forward. Accordingly, line 3a adds back all of the actual RMPP and line 3b shows that part of the RMPP that the Board has assessed should be treated as an expense to cost of goods manufactured, which is consistent with the new milk pricing policy. The difference between lines 3a and 3b is effectively the distribution primarily paid to Farmer Suppliers.

No RMPP amounts were reported in FY2008 and accordingly no adjustment is required to the reported results for that year.

4 Reflects the one-off capital profits on sale of investments in two dairy entities and related dividend received.

5 Reflects the incremental costs associated with being a public company. These have been included on a pro forma basis in FY2011F only.

- 6 Reflects an estimate of interest expense savings expected from the capital raising proposed in this Prospectus being applied (after applicable fees) to the repayment of debt.
- 7 Reflects the expected FY2011 expense associated with the Employee Loyalty Offer.
- 8 Reflects the expected FY2011 expense associated with the IPO.

7.3.5 Commentary on performance

The financial performance of the Bega Cheese Group is subject to many variables. Many of these variables are outside of the Group's control, including weather conditions affecting availability and quality of milk, global dairy commodity markets, actions by competitors in the domestic and international markets and the performance of customers in their respective markets. The Bega Cheese Group has structured its business so as to limit the effect of such variables where possible as follows:

- The Bega Cheese Group sources milk from a number of different dairying regions within NSW and Victoria on a number of different regional-based pay rate structures. This diversity of milk sourcing means that the overall milk pool available to the Group is not totally dependent on the climatic conditions of one geographic region and the price paid for milk may vary between regions.
- Whilst milk pricing to Farmer Suppliers varies each year in line with commodity indicators, long-standing relationships with customers and consistency of product quality and supply assist to reduce the volatility in average selling price movements in the short term.
- Milk prices to Farmer Suppliers in Victoria are generally set at the beginning of each year at the lower end of where annual prices are expected to finish based on the Group's outlook for dairy commodities and competitor activity in buying milk throughout the year. Where commodity prices are expected to be lower in the coming financial year, the Group aims to reduce the opening milk price to Farmer Suppliers to preserve an acceptable return. Where commodity prices are expected to be higher, the Group's opening milk prices may be higher.
- A large part of the Group's total revenue is associated with product supply agreements, where costs are recovered plus an agreed margin. Where commodity input values fluctuate, such movements are passed on to the customer.

Whilst volatility from factors outside of its control can directly affect the total revenue of the Group, the above factors assist in achieving a more stable profit performance from one year to the next, but also result in fluctuations in Group earnings as a percentage of sales revenue.



Lagoon St Facility string cheese line.

A summary of key sales volumes since FY2008 are as follows:

	<i>Pro forma Historical</i>			<i>Pro forma Forecast</i>	<i>Pro forma Historical</i>	
tonnes	FY2008	FY2009	FY2010	FY2011	H1FY2010	H1FY2011
Lagoon St Facility	19,988	23,452	23,667	25,003	11,742	13,082
Coburg Facility	-	2,353	5,257	5,690	2,334	2,653
Ridge St Facility	54,700	62,299	62,952	61,400	33,469	31,451
Strathmerton Facility	-	6,804	28,143	33,250	13,688	16,079
TMI	67,809	77,035	63,131	67,974	32,414	36,533
Total sales tonnes	142,497	171,943	183,150	193,317	93,647	99,798
Bega (internal sales)	(10,903)	(11,014)	(14,234)	(13,124)	(6,970)	(6,312)
TMI (internal sales)	(265)	(425)	(489)	(437)	(212)	(134)
Total sales tonnes, external	131,329	160,505	168,427	179,756	86,465	93,352

Note 1: Amounts exclude CCFA and Heritage Centre volume which account for less than 2 percent of Group revenue in FY2011F.

Note 2: Amounts exclude the sale of liquid products such as liquid milk, cream, and permeate due to their relative weight compared to other processed products.

These products accounted for less than 4 percent of total Group revenue in FY2011F.

	<i>Pro forma Historical FY2008</i>	<i>Pro forma Historical FY2009</i>	<i>Pro forma Historical FY2010</i>	<i>Pro forma Forecast FY2011</i>
Total milk (million litres)	625.1	626.7	615.8	584.5
Amount paid (\$million)	306.6	255.5	224.9	244.0
Average cost per litre	\$0.49	\$0.41	\$0.37	\$0.42

Total milk intake across the Group has been fairly stable over the last four years. For all milk purchased by the Group, including from both Farmer Suppliers and other third parties, the average price paid per litre has ranged from a low of \$0.37 in FY2010 to a high of \$0.49 in FY2008.

Twelve Months Ended June 30, 2009 Compared to the Twelve Months Ended June 30, 2008

Revenue

Revenue increased \$102.5 million, or 15% to \$803.6 million for FY2009 compared with FY2008. This increase reflected higher sales at Bega Cheese of \$134.5 million offset by a \$32.0 million reduction at TMI. The increase in Bega Cheese sales reflected organic volume growth of 12,267 tonnes and an additional 7,841 tonnes generated through the acquisition of the Coburg and Strathmerton Facilities. Organic volume growth was largely driven by increased sales under contract packing arrangements and higher retail sales. Overall, average selling prices increased 4% despite a reduction in global commodity prices reflecting the ability of Bega Cheese to achieve contracted prices for a sustained period.

The reduction in TMI sales occurred despite a 9,067 tonnes increase in volume reflecting substantial declines in average selling prices achieved primarily across its core dairy products consistent with declines in global commodity prices. Volume increases achieved during the year primarily came in the nutritional business as a result of increased bulk formula sales and also from a new customer contract signed with a major international food company.

EBITDA

EBITDA declined \$21.7 million, or 39 percent to \$34.6 million for FY2009 compared with FY2008. This decrease reflected a \$4.1 million increase at Bega Cheese offset by a \$25.9 million decrease at TMI. The increase in Bega Cheese EBITDA largely reflected that the core business was able to maintain its EBITDA margin despite commodity price reductions. The overall decline in EBITDA margin from 7.2% to 6.1% was largely attributable to relatively low returns from Coburg and Strathmerton reflecting transitional costs incurred in their first year of ownership.

The significant decrease in TMI EBITDA was driven by the unfavourable sales pricing environment as a result of a decline in global dairy prices during the period of the global financial crisis which was not fully mitigated through reduced input costs, even though mid-year reductions to pay rates to TMI Farmer Suppliers were achieved in that year.

Profit before tax

Increased depreciation and amortisation of \$2.4 million and \$2.6 million higher interest costs following the acquisitions during the year combined with the \$21.7 million decline in EBITDA resulted in a \$26.7 million reduction in net profit before tax.

Twelve Months Ended June 30, 2010 Compared to the Twelve Months Ended June 30, 2009

Revenue

Revenue increased \$30.5 million, or 4 percent to \$834.1 million for FY2010 compared with FY2009. This increase reflected higher sales at Bega Cheese of \$68.5 million offset by a \$37.9 million reduction at TMI. The net increase in Bega Cheese sales largely reflected reduced selling prices across all locations in line with reduced commodity prices for cheese, which were more than offset by the full year impact of additional sales volume as a result of the Coburg and Strathmerton Facilities acquisitions.

The reduction in TMI sales reflected a 14,000 tonne decline in volumes (primarily milk powders and bulk nutritional products) reflecting lower demand and consequently price for these products. Overall average selling prices increased by 7.2% reflecting a change in mix towards higher value products such as cream cheese.

EBITDA

EBITDA increased \$20.2 million, or 58 percent to \$54.8 million for FY2010 compared with FY2009. This increase reflected a \$1.7 million increase at Bega Cheese and a \$18.5 million increase at TMI. The net EBITDA increase at Bega Cheese reflected a stronger contribution from the first full year of operation of the Strathmerton Facility offset by a general reduction in the remainder of the business. This reduction largely reflected an increase in Group operating costs to support the increasing scale of the Group. The increase in TMI EBITDA reflected a return to more normal gross margins with milk prices reducing a further 5-7 cents per litre whilst underlying commodity prices for TMI's product mix rose slightly, which led to an increase in average selling prices to customers.

Profit before tax

Depreciation and amortisation expense increased as a result of the full year impact of the Coburg and Strathmerton acquisitions and other capital expenditure. Interest expense increased \$1.2 million reflecting higher debt levels although these were mitigated by lower interest rates. These factors combined with a \$20.2 million increase in EBITDA resulted in a \$14.4 million increase in profit before tax.

Twelve Months Ended June 30, 2011 Compared to the Twelve Months Ended June 30, 2010

Revenue

Revenue is expected to increase by \$108.6 million, or 13 percent to \$942.8 million for forecast FY2011 compared with FY2010. This increase reflects a \$69.3 million increase at Bega Cheese and a \$39.3 million increase at TMI. The forecast increase in Bega Cheese sales reflects both an increase in volume and an increase in average selling price. Volume growth largely reflects increased contract manufacturing sales partially offset by flat export volumes due to the higher value of the Australian dollar, negating strong global demand. The increase in selling price largely reflects a general recovery of global dairy prices. The increase in TMI sales also reflects both an increase in volume and an increase in average selling prices.

Volume growth is expected to occur primarily through increased export sales of cream cheese and butter. Consistent with Bega Cheese, average selling prices are expected to increase particularly for butter and powder.

EBITDA

EBITDA is expected to decrease by \$1.3 million, or 2 percent to \$53.4 million for forecast FY2011 compared with FY2010. This decrease reflects a \$1.3 million decline at Bega Cheese and comparable EBITDA at TMI. An increase in the average selling price of the Group's products was offset in part by increases in the input cost of milk which impacted both the Bega Cheese and the TMI businesses whilst the increasing level of contract packing sales resulted in a declining EBITDA margin percentage. These factors combined with general overhead cost increases contributed to the expected decline in EBITDA margin.

Profit before tax

Depreciation and amortisation charges are forecast to increase by \$0.9 million. The \$3.3 million reduction in interest expense primarily reflects the pro forma benefit of the reduced debt levels that will exist in the Bega Cheese Group immediately post the Offer. As described in section 7.1.2 above for the purposes of preparing the FY2011 pro forma forecast this reduction was assumed to occur on 1 July 2010.

Six Months ended 27 December, 2009 (H1 FY2010) compared to the Six Months ended 26 December, 2010 (H1 FY2011)

Revenue

Revenue increased \$90.0 million, or 23 percent to \$484.6 million for H1 FY2011 compared with H1 FY2010. This increase reflects a \$56.8 million increase at Bega Cheese and a \$33.2 million increase at TMI. The increase in Bega Cheese sales reflects an increase in volume and average selling price. Volume growth reflects increased sales under the contract packing arrangements. The increase in selling prices largely reflected a general recovery of global dairy prices. The increase in TMI sales of \$33 million reflects an increase in volume and increase in average selling price. Volume growth reflects increased sales of bulk nutritional products and increased demand for commodity products. Similar to the Bega Cheese business, the increase in selling prices reflects a general recovery of global dairy prices.

EBITDA

EBITDA increased \$4.4 million, or 16 percent to \$30.9 million for H1 FY2011 compared with H1 FY2010. This increase reflected a \$3.0 million increase at Bega Cheese and a \$1.4 million increase at TMI. The EBITDA increase at Bega Cheese reflected an increase in volume at the Strathmerton Facility as well as an increase in contribution from contract packing returns from the Strathmerton Facility. The slight increase in TMI EBITDA resulted from increased contribution from nutritional products as well as increases in the average selling price of the other TMI products, partially offset by the increase in the price paid for milk.

Profit before tax

Profit before tax increased \$3.7 million, or 31 percent to \$15.8 million for H1 FY2011 compared with H1 FY2010. Depreciation and amortisation expense were in line with the previous six month period, with a small increase driven by Bega Cheese as a result of additional capacity related capital expenditure at the Strathmerton Facility. Interest expense increased as a result of an increase in debt levels at Bega Cheese between December 2009 and December 2010, primarily due to increased borrowings being used to acquire the 15 percent interest in WCB.

7.3.6 FY2012 performance

As at the date of this Prospectus the management of Bega Cheese has prepared budgets for the FY2012 year. However, due to the uncertainty of such matters as the completion and timing of the Merger, the volatility of exchange rates and international dairy product prices, the Board does not believe that it has a reasonable basis to provide these budgets in this Prospectus.

The FY2012 net profit after tax is expected to be impacted by the one-off impact of the fair value of Shares issued to Bega Cheese Group employees as described in section 9.12. The total estimated amount of the expense is expected to be \$1.7 million of which \$1.08 million is expected to be expensed in FY2011 and the balance in FY2012.

7.4 Forecast assumptions

The FY2011 Forecast included in this Prospectus is based on the unaudited management accounts as at March 2011 and a forecast for the remaining three months of FY2011. The assumptions used to prepare the forecast are as follows:

Specific Assumptions

In preparing the FY2011 Forecast the Directors have applied the following specific business assumptions for the FY2011 Forecast period:

- **Satisfactory supply of milk**

Milk intake to 30 June 2011 from Farmer Suppliers will trend consistently with prior years and there is not expected to be any material climatic or other farming conditions which may adversely affect the actual supply of milk in the forecast period. Third parties supplying milk under agreements will continue to meet their obligations to supply milk to the Group in the forecast period in accordance with those agreements. During the forecast period all milk received by the Group will meet satisfactory quality and composition standards consistent with milk traditionally supplied to the Group during corresponding prior periods. The total volume of milk supplied to the Group for FY2011 is assumed to be 584.5m litres.

- **Satisfactory conversion of milk into dairy products**

Dairy products manufactured during the forecast period by the Group at its manufacturing facilities will meet accepted quality standards, will be suitable for sale as first grade product and will not be subject to material down grade or otherwise fail to meet specifications.

- **Sales agreements with customers**

Existing agreements for the sale of products and/or other services to major customers will continue to be honoured by those customers and there is not expected to be any material adverse change to the selling value or volume during the forecast period. The Group will continue to receive sufficient volumes of milk from Farmer Suppliers and other suppliers, raw materials, packaging and other ingredients consistent in volume, timing and quality as allowed for in the Group's sales and operations planning processes.

- **Selling price of non-contracted forecast sales**

Selling prices for bulk dairy products, consumer retail dairy products and foodservice dairy products will remain stable and are not subject to a major change or other adverse volatility during the forecast period.

- **Milk price to Farmer Suppliers**

Milk pay rates to Farmer Suppliers will remain consistent with pay rates announced during the forecast period. No exceptional circumstances are expected to arise that would require additional payments to Farmer Suppliers during the forecast period. The assumed cost per litre of milk acquired by the Group during FY2011 is 42 cents.

- **Cost of raw materials and services**

Suppliers of key raw materials, packaging and ingredients required for manufacturing dairy products and major transport, logistics, energy and other services who are subject to contracts with the Group continue to meet the requirements of those contracts and there are no adverse variations to those existing contracts as to volume, price and quality during the forecast period.

- **Manufacturing and other operating costs**

Variable costs incurred in manufacturing bulk dairy products during the forecast period will vary according to the movement in volume of milk intake and composition, together with market forces. Variable costs per metric tonne for bulk dairy products during the forecast period will remain consistent with prior experience. Fixed operating costs and overheads will remain consistent with the previous experience of the Group.

- **Borrowings and interest rates**

Key debt facility providers will continue to provide facilities during the forecast period and the interest expense for loans will continue at the contracted interest rates during the forecast period. Working capital requirements of the Group will be funded by variable interest rate borrowings during the forecast period, with total working capital requirements being estimated based on cash flow forecasts. Interest rates applicable to these working capital borrowings are not expected to increase materially during the forecast period from the interest rates applicable at the date of this Prospectus.

- **Foreign exchange**

The forecast reflects that all sales for the period from 28 March 2011 to 30 June 2011 have been hedged.

General Assumptions

- There will be no significant adverse changes to the competitive environment in which the Group operates.
- There will be no material change to any major competitor to the Group.
- The Group will not make any material acquisitions or disposals of businesses or major assets.
- There will be no material adverse changes or formal amendments to any other material contract, agreement or arrangement relating to the Group.
- Parties to all material contracts, agreements or arrangements will continue to comply with the terms and conditions of those arrangements in place at the date of this Prospectus.
- All key management personnel will remain with the business.
- There will be no material industrial, contractual, or political disruptions which impact on the Group or adversely affect the ability of the Group to function normally in the ordinary course of business.
- There will be no material changes in statutory, legal, tax or regulatory requirements that would materially affect the Group's operating or financial performance.
- The accounting policies of the Group which are in place at 26 December 2010 will remain in force and not materially change.
- Accounting Standards which the Group is required by law and/or best practice to adopt will not materially change.
- The Group will not be a party to any significant litigation.
- There will be no changes in climatic conditions in the regions in which the Group operates that will have a material adverse effect on the Group's operating or financial performance.

7.5 Sensitivity analysis

The forecast results are based on the assumptions noted above and are sensitive to changes in those assumptions. The impacts of movements in the key assumptions have been calculated to demonstrate the financial impact on EBITDA arising from changes in the specified variables for the period 28 March 2011 to 30 June 2011. Additional disclosure has been made to show the illustrative impact of variations in the key assumptions on an annual basis. For this purpose the FY2011 full year forecast has been used to derive the impact of changes in key variables.

Milk purchase price

Milk purchase prices are determined having regard to a number of factors. Movements that increase the returns generated from dairy products are generally reflected in an increase in the price payable for milk purchases, and conversely, movements that reduce the returns generated from milk based products are generally reflected in the price payable for milk purchases. The variation in the table below assumes that all other assumptions in the forecast are held constant.

Variation in assumption	Variation in EBITDA +/-	
	28 March 2011 to 30 June 2011	Annual impact
+/- 2.5% change in milk price on Farmer Suppliers milk (approx 1 cent per litre)	-/+ \$1.0 million	-/+ \$5.5 million

The variations in the table below assumes that all other assumptions in the forecast are held constant. This assumption is simplistic as in reality movements in exchange rate and commodity prices have a reasonably direct relationship with the industry price paid for milk. For example, if the Australian currency depreciated and everything else remained the same revenues would increase, however, a portion of the benefit would flow to Farmer Suppliers by way of an increased price for milk; the reverse would apply if the currency appreciated. In addition there are other impacts from currency movements including cheaper imported raw materials and an impact on the local price for dairy commodities as these prices will correlate with export parity pricing.

Variation in assumption	Variation in EBITDA +/-	
	28 March 2011 to 30 June 2011	Annual impact
+/- 1% change in sales price¹	+/- \$1.3 million	+/- \$5.5 million
+/- 5% change in milk volume²	+/- \$0.4 million	+/- \$1.6 million
+/- 5% change in USD/AUD exchange rate³	n.a.	\$8.0 million to \$9.0 million

¹ The change is computed excluding sales under contract manufacturing arrangements structured on a cost-plus basis as movements in revenue under such contracts do not result in a material change to EBITDA returns.

² A change in milk volume could occur as a result of climatic conditions or Farmer Suppliers deciding to deliver their milk to another company.

³ There is no sensitivity provided for the June 2011 quarter as the Group has substantially hedged foreign currency exposures for sales in this quarter. The annual impact assumes that there were no hedging contracts in place at the beginning of the period and reflects the impact of a 5% change on the average rate achieved by the Group on its USD sales. The current hedging policy of the Group is for TMI to cover between 30 to 80% of expected full year sales whilst Bega takes out forward cover at the time of a customer placing an order. Accordingly the actual earnings impact of movements in the AUD/USD rate may vary materially from the illustrative sensitivities presented above.



Milk separators at TMI.

7.6 Overview of cash flows

Provided in the table below is a summary of the pro forma historical cash flows of the Group for the three years ended 30 June 2010 and pro forma forecast for the year to 30 June 2011. The cash effect of the pro forma adjustments referred to in section 7.3.4 have been reflected in the cash flow summary in the table below.

Summary of Cash Flows

	<i>Pro forma Historical</i>	<i>Pro forma Historical</i>	<i>Pro forma Historical</i>	<i>Pro forma Forecast</i>
\$'000	FY2008	FY2009	FY2010	FY2011
Pro forma EBITDA (including 100% of TMI EBITDA)	56,266	34,558	54,781	53,425
Change in working capital¹	(50,218)	(9,026)	14,826	20,569
Change in other non-cash items	3,693	1,420	(1,335)	6,822
Capital expenditure	(6,158)	(18,823)	(20,119)	(26,126)
Operating cash flow after capital expenditure	3,583	8,129	48,153	54,690
Pro forma interest paid (net)				(6,406)
Pro forma income tax paid²				(3,605)
Cash flow before dividends and debt repayment³				44,679

(1) A significant increase in the carrying value of inventory reflecting underlying commodity prices occurred during FY2008. Inventory values conversely declined in FY2009 as commodity prices fell. To some extent this was offset by increased working capital associated with the acquisition of the Strathmerton and Coburg Facilities. Active working capital management by the Group in FY2010 resulted in increased payables during the period which benefited operating cash flow. This was offset by an increase in inventory in FY2010 due to higher levels of infant formula stock as well as additional direct milk supply received near the end of the year. The elevated levels of inventory in FY2010 were reversed in FY2011 which favourably impacted operating cash flow, partially offset by a decrease in trade and other payables.

(2) Reflects that the cash tax payable by the Group will benefit from the accumulated prior period tax losses of TMI.

(3) A final dividend of \$1.6 million based on milk supplied in the FY2011 year will be paid to TMI Farmer Suppliers in July 2011.

7.6.1 Capital expenditure

Bega Cheese Group capital expenditure is budgeted on an annual basis in accordance with strategic planning, which normally has a two to three year outlook for major projects. All major capital expenditure needs to be approved by the Board prior to entering into any capital commitments, regardless of whether that expenditure has been budgeted. In determining whether to approve capital expenditure the Board has regard to statutory requirements as to safety and environmental management, available funds and the overall returns expected to be generated from that expenditure. Projects are generally assessed against a return on investment criteria of 15 percent and/or a pay-back of investment in a three to four year period.

In FY2009 and FY2010, capital expenditure was respectively \$18.9 million and \$20.6 million. In FY2011 capital expenditure is expected to increase to a total of \$26.1 million. This primarily reflects major expenditure at the Strathmerton Facility to establish natural cheese cutting and packaging at that site and at the Coburg Facility to improve the scope and efficiency of this operation, as well as commencing a four year plan to improve the infrastructure and environmental performance at TMI.

In FY2012, it is expected that capital expenditure will increase to \$35.0 million. This increase reflects additional expenditure of circa \$8.0 million at TMI to increase production capacity of key product lines, a minor property acquisition as well as completing capital upgrade programs at the Strathmerton and Coburg Facilities.

7.7 Financial position

The table below sets out a summary of the historical financial position of the Group as at 26 December 2010 as well as the impact of the Offer as if it had been completed as at 26 December 2010.

Summary of Historical and Pro Forma Financial Position

<i>Balance Sheet</i>	<i>Actual</i>	<i>Impact of the Offer</i>	<i>Pro forma</i>
\$'000	26 Dec 2010		26 Dec 2010
Current Assets			
Cash	11,329	-	11,329
Receivables	114,877	-	114,877
Inventory	116,100	-	116,100
Other	7,497	-	7,497
Total Current Assets	249,803	-	249,803
Non-Current Assets			
Property, plant & equipment	194,804	-	194,804
Deferred tax assets	13,427	-	13,427
Other ¹	29,441	-	29,441
Total Non-Current Assets	237,672	-	237,672
TOTAL ASSETS	487,475	-	487,475
Current Liabilities			
Trade & other payables	121,218	-	121,218
Borrowings	50,983	(31,500)	19,483
Other	20,689	-	20,689
Total Current Liabilities	192,890	(31,500)	161,390
Non-Current Liabilities			
Borrowings	99,684	-	99,684
Other	1,951	-	1,951
Total Non-Current Liabilities	101,635	-	101,635
TOTAL LIABILITIES	294,525	(31,500)	263,025
NET ASSETS	192,950	(31,500)	224,450
EQUITY			
Capital and reserves attributable to owners of Bega Cheese	168,692	31,500	200,192
Non-controlling interests	24,258	-	24,258
TOTAL EQUITY	192,950	31,500	224,450
Net Debt²			
Net Debt (excluding 30 percent of TMI net debt)	139,338		107,838
			94,601

1. In the December 2010 financial statements the Group's investment in WCB shares was recorded at market value of \$27.5 million (ASX price as at 26 December 2010 of \$3.50 per share). The mark to market at this date from the value recorded at acquisition has been recorded through a fair value reserve within equity. The closing price of WCB shares at 30 June 2011 was \$4.55 per share. In accordance with the Group's accounting policies a further increment of approximately \$9.0 million will be recorded through the fair value reserve within equity in its financial statements year to 30 June 2011.

2. Net debt comprises cash on hand offset by current and non-current borrowings.

The pro forma consolidated statement of financial position shown in the table above has been extracted from the financial statements of Bega Cheese Group as at December 2010 as reviewed by the Group's Auditors and adjusted to reflect the following assumptions:

- 17.5 million shares will be issued as part of the Offer for gross proceeds of \$35 million;
- \$31.5 million of the gross proceeds will be used to repay existing debt facilities;
- residual \$3.5 million of gross proceeds will be used to fund the fees and expenses of the Offer of which \$2.625 million will be offset against the new share capital raised and \$0.875 million will be expensed in FY2011; and
- 850,000 shares will be issued to Qualifying Employees for nil consideration.

Seasonality in the business (refer section 7.3.3) also has an impact on the level of net debt of the Group. Traditionally net debt will be at a peak around December month as working capital levels are higher due to seasonal milk flows of the spring period.

The Group estimates that, based on unaudited management information, net debt levels (excluding 30 percent of TMI net debt) at 30 June 2011 are approximately \$33m less than net debt levels at the end of December 2010.

7.8 Description of financing facilities

The table below summarises the financing facilities available, the actual amounts drawn against the financing facilities as at 26 December 2010 and the estimated and unaudited amount drawn down as at 30 June 2011. The lower levels of draw downs as at 30 June 2011 reflect lower seasonal working requirements.

As at 26 December 2010		Type	As at 30 June 2011 (unaudited)			
Bega Cheese	TMI		Bega Cheese		TMI	
Amount drawn \$million	Amount drawn \$million		Facility Limit \$million	Amount drawn \$million	Facility Limit \$million	Amount drawn \$million
68.1	8.9	Term loan facilities	79.4	79.4	n.a.	-
38.5	34.0	Working capital facility	40.0	24.1	30.0	12.0
n.a.	0.2	Overdraft facility	n.a.	-	4.5	0.0
0.1	1.1	Leases	n.a.	0.1	n.a.	0.7
106.7	44.2	TOTAL	119.4	103.5	34.5	12.7

The facilities contain certain representations, undertakings, events of default and review events which are usual for facilities of this nature. Any breach of the representations or undertakings, or the occurrence of an event of default or a review event, may lead to the funds borrowed becoming due and the facilities being cancelled. Bega Cheese and TMI expect to remain in compliance with the terms and conditions of the financing facilities. Refer section 9.6 for a description of the facilities as at the date of this Prospectus.

The bank facilities contain financial undertakings usual for facilities of this nature, including:

<i>Company</i>	<i>Bega Cheese</i>		<i>TMI</i>	
Item	Undertaking (computed on consolidated basis)	Actual at December 2010	Undertaking	Actual December 2010
Gearing ratio Bega Cheese = Net Debt/ Total Tangible Assets TMI = Total Debt/Tangible Net Worth	n/a	n/a	Not to exceed 1.20 times	0.50 times
Interest Service Cover Ratio EBIT/interest expense	Equal to or greater than 2.50 times	4.11	Equal to or greater than 2.50 times	9.49 times
Leverage Ratio (Net Debt divided by EBITDA)	Not greater than 3.00 times	2.34	n.a	n.a.
Minimum Shareholders Funds	Net worth is equal to or greater than \$150 million	\$193 million	Net worth is equal to or greater than \$65 million or 85 percent of the prior year tangible net worth	\$89 million

Adjustments usual for a facility of this nature will be made to EBITDA for the purposes of determining compliance with the financial undertakings. Further details of the financing facilities are provided in section 9.6.

In addition to the bank facilities both Bega Cheese and TMI have a number of minor operating leases.

Other than what is disclosed in this section, the Bega Cheese Group has no off-balance sheet financing arrangements.



Friesian cows.

8. Investigating Accountant's Report

Strathmerton Facility:
Processed cheese plant.



The Directors
Bega Cheese Limited
PO Box 123
23-45 Ridge Street
Bega NSW 2250

18 July 2011

Dear Directors

Subject: Investigating Accountant's Report on Historical and Forecast Financial Information and Financial Services Guide

We have prepared this report on certain historical and forecast financial information of Bega Cheese Limited and its controlled entities (the Company) for inclusion in a prospectus dated on or about 18 July 2011 (the Prospectus) relating to the issue of up to 18.35 million ordinary shares in the Company (the **Issue**).

Expressions defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

The Company has requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the **Report**) covering the following information:

Historical financial information

- (a) the proforma historical income statements of the Company for the years ended 30 June 2008, 2009 and 2010 and the six months ended 26 December 2010;
- (b) the historical balance sheet as at 26 December 2010 and the proforma balance sheet as at 26 December 2010 (the **Pro Forma Balance Sheet**) which assumes completion of the proposed transactions disclosed in the Prospectus (the **Pro Forma Transactions**), and

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- (c) the proforma historical cash flow statements of the Company for the years ended 30 June 2008, 2009 and 2010,

(collectively, the **Historical Financial Information**).

Forecast financial information

- (a) the proforma forecast income statements of the Company for the year ending 30 June 2011; and
- (b) the proforma forecast cash flow statements for the Company for the year ending 30 June 2011,

(collectively, the **Forecast Financial Information**).

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecasts to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of review of Historical Financial Information

The Historical Financial Information set out in Section 7 of the Prospectus has been extracted from the audited financial statements of the Company for the years ended 30 June 2008, 2009 and 2010 and from the reviewed financial statements of the Company for the six months ended 26 December 2010. The financial statements were audited or reviewed by the Company's auditors that issued an unqualified audit opinion on them. The Historical Financial Information incorporates such pro forma transactions and adjustments as the Directors Entity considered necessary to present the Historical Financial Information on a basis consistent with the Forecasts. The Directors are responsible for the preparation of the Historical Financial Information, including the determination of the Pro Forma Transactions and adjustments.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the audited financial performance of the Company for the years ended 30 June 2008, 2009 and 2010 and the reviewed financial statements of the Company for the six months ended 26 December 2010;
- a review of work papers, accounting records and other documents;
- a review of the adjustments made to the Historical Financial Information;
- a review of the assumptions (which include the Pro Forma Transactions) used to compile the Pro Forma Balance Sheet;



- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 10 of the Prospectus, and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Review statement on Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the Pro Forma Balance Sheet has not been properly prepared on the basis of the Pro Forma Transactions;
- the Pro Forma Transactions do not form a reasonable basis for the Pro Forma Balance Sheet;
- the Historical Financial Information, as set out in Section 7 of the Prospectus, does not present fairly:
 - (a) the proforma historical income statements of the Company for the years ended 30 June 2008, 2009 and 2010 and the six months ended 26 December 2010;
 - (b) the historical and proforma balance sheets of the Company as at 26 December 2010, assuming completion of the Pro Forma Transactions; and
 - (c) the proforma historical cash flow statements of the Company for the years ended 30 June 2008, 2009 and 2010.

in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 10 of the Prospectus.

Scope of review of Forecasts

The Directors are responsible for the preparation and presentation of the Forecasts, including the best estimate assumptions (which include the Pro Forma Transactions) on which they are based.

Our review of the best estimate assumptions underlying the Forecasts was conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures as we considered

necessary to form an opinion as to whether anything has come to our attention which causes us to believe that:

- (a) the best estimate assumptions do not provide a reasonable basis for the Forecasts;
- (b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Company disclosed in Section 10 of the Prospectus; or
- (c) the Forecasts are unreasonable.

The Forecasts have been prepared by the Directors to provide investors with a guide to the Company's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of Forecasts. Actual results may vary materially from the Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the description of investment risks set out in Section 5 of the Prospectus.

Our review of the Forecasts and the best estimate assumptions upon which the Forecasts are based is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecasts included in the Prospectus.

Review statement on the Forecasts

Based on our review of the Forecasts, which is not an audit, and the reasonableness of the best estimate assumptions giving rise to the Forecasts, nothing has come to our attention which causes us to believe that:

- (a) the best estimate assumptions set out in Section 7 of the Prospectus do not provide a reasonable basis for the preparation of the Forecasts;
- (b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Company disclosed in Section 10 of the Prospectus; or
- (c) the Forecasts are unreasonable.

The best estimate assumptions set out in Section 7 of the Prospectus are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results and distributions achieved by the Company may vary significantly from the Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Forecasts, as future events, by their very nature, are not capable of independent substantiation.



Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or disclosure of interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Issue other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Glen Hadlow'.

Glen Hadlow
Authorised Representative
PricewaterhouseCoopers Securities Ltd



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 18 July 2011

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("PwC Securities") has been engaged by Bega Cheese Limited ("**Bega**") to provide a report in the form of an Investigating Accountants Report in relation to the pro forma historical and forecast financial information (the "**Report**") for inclusion in the prospectus dated 18 July 2011.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.



5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees have been charged based on hourly rates and included in Section 9 of the Prospectus.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the auditor of Bega.

7. **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("FOS"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. **Contact Details**

PwC Securities can be contacted by sending a letter to the following address:

Glen Hadlow
PricewaterhouseCoopers Securities
201 Sussex Street
SYDNEY NSW 2000

9. Additional Information



TMI milk receival area.

9. Additional Information

9.1 Corporate background

Bega Cheese was formerly The Bega Co-operative Society Limited, a co-operative registered under the Co-operatives Act 1992 (NSW). On 23 April 2008 The Bega Co-operative Society Limited was registered as a company under the Corporations Act as Bega Cheese Limited. Upon conversion to a company the share structure comprised A class ordinary shares, which were held by active milk suppliers and conferred both voting and dividend rights, and B class ordinary shares, which were held by former milk suppliers and did not confer voting rights.

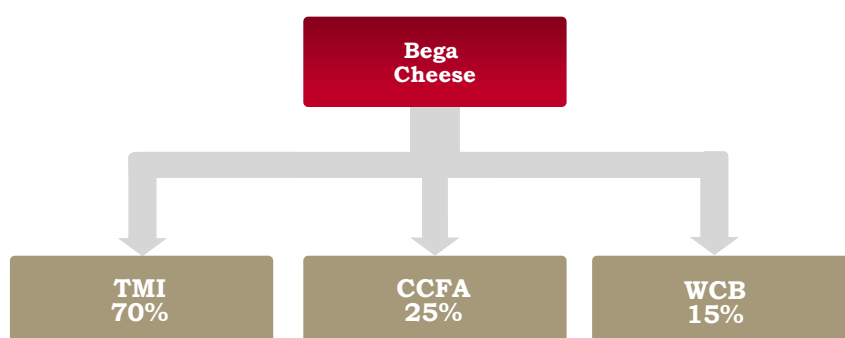
On 21 April 2011, Bega Cheese Shareholders approved a share split of the A class and B class shares on the basis of 4 shares for every one share.

On the same day, Bega Cheese Shareholders passed resolutions to convert all of the Company's A class and B class shares into a single class of ordinary shares and to adopt a new Constitution consistent with the requirements of ASX. The new Constitution and the conversion of Shares takes effect on the date of this Prospectus. The key features of the Constitution are summarised in section 9.4.

9.2 Corporate structure

Bega Cheese is the owner and operator of the Ridge Street, Lagoon Street, Strathmerton and Coburg Facilities. Its head office and administration operations are located at 23-45 Ridge Street, Bega, NSW.

It has three non-100 percent owned investments in dairy product companies as shown in the adjacent table.



9.2.1 TMI

Bega Cheese's investment in TMI commenced in April 2007, when it was issued ordinary shares equal to 70 percent of the total number of shares on issue in TMI at that date. This investment required the payment of \$38.76 million. Approximately \$24 million of this amount was paid to TMI when the shares were issued, with the balance of \$14.76 million paid in three subsequent annual payments. An amount equal to the funds paid to TMI by the Company was paid to the existing shareholders of TMI in the form of distributions which were subject to certain qualification requirements associated with ongoing milk supply.

The other shareholders in TMI are suppliers of milk who hold redeemable preference shares. These shares have the same voting and dividend rights as ordinary shares and are redeemable if the holder ceases to be a supplier (as defined in the constitution of TMI). Once the Offer has been successfully concluded and the Company is listed on ASX, the Board intends to seek a full merger of Bega Cheese and TMI. On 9 March 2011, Bega Cheese and TMI signed a Merger Principles Agreement as a precursor to the Merger. The terms of the MPA are summarised in section 9.3.

9.2.2 CCFA

CCFA was established as an unincorporated joint venture in 1997 as a result of merging the ACT and South East NSW milk processing and distribution businesses of Bega Cheese and Australian Co-operative Foods Limited (now called Dairy Farmers Pty Ltd which is part of the Kirin Group). The CCFA business has a milk processing plant in Canberra and distributes milk, other dairy products, fruit juice and chilled foods throughout ACT, South East NSW and the Riverina region of NSW.

The joint venture is owned 75 percent by Dairy Farmers Pty Ltd and 25 percent by Bega Cheese. The interests in CCFA of the joint venture partners are managed through a board of directors comprising four directors appointed by Dairy Farmers Pty Ltd, two directors appointed by Bega Cheese, and a managing director appointed by unanimous approval of the joint venture partners.

9.2.3 WCB

In November 2010, Bega Cheese entered into an agreement to acquire a 15 percent interest in WCB at a cost of \$21.7 million. This resulted in Bega Cheese becoming WCB's largest shareholder. Bega Cheese's Chairman, Mr Barry Irvin joined the WCB Board at the same time as the investment. WCB has been producing dairy products for over 120 years and its shares have been listed on ASX since 2004. It is a major producer of dairy commodities such as milk, cheese, milk powders, whey protein, butter and cream, for both domestic and export markets.

The agreements entered into between Bega Cheese and WCB in connection with the issue of WCB shares include the following provisions:

- a. until 5 October 2011, a restraint to limit Bega Cheese to a maximum relevant interest of 19.9 percent in WCB unless the acquisition is pursuant to a take-over offer recommended by the WCB board;
- b. until 7 November 2011, that WCB must invite Bega Cheese to proportionately participate in any offer of WCB shares (other than offers made solely to WCB employees or milk suppliers) while ever Bega Cheese holds 10 percent or more of the WCB shares on issue;
- c. until 7 May 2012, that Bega Cheese must notify and consult with WCB in relation to the sale of any of its WCB shares; and
- d. the establishment of a management group (subject to the Competition and Consumer Act (Cth) 2010) between the two companies to ensure each business is able to maximise the benefits of the relationship through such things as the identification of opportunities for greater efficiencies and the development of new products and markets.



Individually wrapped process cheese slices at the Ridge St facility.

9.3 *Merger with TMI*

On 9 March 2011, Bega Cheese and TMI signed a Merger Principles Agreement (MPA) in relation to a Merger. The following summarises the key components of the MPA.

Timing and structure of Merger

The Merger will be implemented following the IPO through a scheme of arrangement, which achieves the following:

- (a) Bega Cheese will hold all of the issued shares in TMI so that TMI becomes a wholly owned subsidiary of Bega Cheese; and
- (b) TMI Redeemable Preference Shareholders will exchange their redeemable preference shares (RPS) for Bega Cheese Shares, so that they become shareholders in Bega Cheese.

The details of the Merger, in particular the number of Bega Cheese Shares to be issued in return for all of the RPS, will be determined by Bega Cheese in consultation with the TMI Supplier Directors as soon as possible after the IPO. The Merger proposal will then be submitted to the TMI Redeemable Preference Shareholders for their approval or acceptance. The court will need to approve the scheme.

Bega Cheese and TMI will do all things necessary to progress and implement the Merger as soon as possible after the IPO has been completed. Bega Cheese and TMI will work co-operatively to obtain any financial, tax and legal advice required in connection with the implementation of the Merger.

TMI Supplier Directors

Upon implementation of the Merger, in accordance with the terms of the Bega Cheese Constitution, Bega Cheese will allocate two Board positions to Directors who are milk suppliers to TMI for the period of two years from the date on which Bega Cheese becomes the registered holder of all of the shares in TMI pursuant to a scheme of arrangement or other transaction implemented under a merger agreement, subject to TMI remaining a wholly owned subsidiary of Bega Cheese during that period.

Milk pricing

Bega Cheese recognises that the TMI business requires a substantial and reliable supply of milk and accordingly, is committed to maintaining a base of dairy farmer milk suppliers to TMI in Northern Victoria. Bega Cheese recognises that, in order to ensure that this milk supply base remains in place following the Merger, TMI will have to continue to pay a leading manufacturing price for milk supplied to it by Farmer Suppliers in accordance with the Bega Cheese Group milk price policy.

TMI business

The key business operations of TMI will continue to be conducted from the facilities at Tatura. Bega Cheese will continue to support and foster the success of the TMI business and the use of the Tatura brand in that business.

Termination

If the parties have not entered into a merger implementation agreement finalising the terms of the Merger by 30 September 2011, either party may terminate the Merger Principles Agreement. Either party may also terminate the Merger Principles Agreement if the other party is subject to an insolvency event or if a material adverse change event (as defined) occurs.

9.4 Constitution

The Constitution is effective from the date this Prospectus is lodged with ASIC. A copy of the Constitution can be obtained by calling 1300 365 969 or by downloading it from www.begacheese.com.au. A summary of the material provisions is set out below.

Shares

Subject to the Corporations Act, Listing Rules and the Constitution, the Directors may issue, or grant options in respect of, Shares.

Voting rights

All Shareholder are entitled to receive notices and vote at general meetings. At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and one vote per Share on a poll.

Dividend rights

Dividends are determined by the Directors at their discretion and, subject to any special rights (at present there are none), are payable on all Shares in proportion to the amount of the issue price paid up on those Shares.

Rights on winding up

On a winding up of the Company, all Shareholders are entitled to participate in the distribution of surplus property in proportion to the Shares held by them.

Transfers of Shares

Shares are transferable, subject to the requirements of the Constitution (including the Shareholder Limit) and the Listing Rules.

Shareholding Limit

No person, together with his or her Associates, may hold or have a relevant interest in a number of Shares that exceeds the Shareholding Limit. The Shareholding Limit is 5 percent of the total Shares on issue for the first two years from listing and 10 percent of the total Shares on issue from the end of the two year period and to the anniversary of the fifth year of listing. The Shareholding Limit must be put to Shareholders for renewal for another five years by way of ordinary resolution by no later than the fifth anniversary of the listing. If the Shareholding Limit is not renewed, it will automatically cease. If the Shareholding Limit is renewed, the Shareholding Limit will increase to 15 percent of the total Shares on issue and will automatically cease at the tenth anniversary.

The Shareholding Limit will cease to have effect on the earlier of:

- (a) the Constitution being amended by special resolution of Shareholders to remove the Shareholding Limit;
- (b) the fifth anniversary of the Listing Date if the continuation of the Shareholding Limit is not approved by Shareholders at the fifth anniversary; or
- (c) the tenth anniversary of the Listing Date if the continuation of the Shareholding Limit is approved by Shareholders at the fifth anniversary.

If a person acquires Shares in excess of the Shareholding Limit, the right to vote and be paid dividends in relation to the Shares held in excess of the Shareholding Limit will be suspended. Further the Directors may require the disposal of the Shares held in excess of the Shareholding Limit. If that disposal is not made within the period set out in the Constitution, the Directors may proceed to sell those Shares and distribute the proceeds of the sale, after paying relevant costs and expenses, to the holder.

Directors

The Board will comprise up to eight Directors of whom four must be Supplier Directors. Subject to the Corporations Act and the requirement for a minimum number of four Supplier Directors, the Board may increase or reduce the number of Directors comprising the Board from time to time. The Board must not reduce the size of the Board

under this Rule to less than the number of Directors in office at the time the reduction takes effect. During the two years after the successful implementation of the TMI merger, two TMI Supplier Directors will be appointed as members of the Board.

Remuneration of Directors

The Directors are entitled to be remunerated for their services as Directors. The total annual remuneration must not exceed \$900,000 or such other amount approved by Shareholders. The total annual remuneration amount is divided between the Directors in the manner agreed or in default of agreement, equally. Refer section 9.16 for further details.

9.5 Material Contracts

9.5.1 Fonterra

Trade mark licence

On 8 May 2001, Bega Cheese granted a long term sole and exclusive trade mark licence (FTML) to Fonterra, an Australian subsidiary of the New Zealand based Fonterra Group Co-op Ltd, to use the Bega trade marks on natural and processed cheddar cheese, string cheese and butter products sold in Australia.

The material terms of the FTML are summarised as follows:

- The initial term of the FTML is 25 years, commencing 8 May 2001. Fonterra has the option to renew the licence for successive periods of 25 years as long as it is not in breach of any material term of the FTML.
- Fonterra is required to pay a royalty for the use of the Bega trade marks based on retail sales achieved by Bega branded cheese products in Australia.
- Fonterra is required to manage the Bega brand in accordance with defined marketing principles, including recognition of the heritage of the brand and the premium status of products sold under it.

Product supply agreement

In conjunction with the licensing of the Bega trade marks, Bega Cheese entered into a long term product supply agreement with Fonterra (FPSA) under which it supplies retail packs of cheese products to Fonterra. The key terms of the FPSA are as follows:

- Bega Cheese is required to supply cheese products to Fonterra in accordance with the ordering and planning procedures set out in the FPSA.
- Fonterra is required to source all Bega branded cheese products from Bega Cheese for the duration of the FTML. Fonterra may elect to source other cheese products from Bega Cheese.
- Fonterra is required to supply all bulk dairy ingredients required to produce its products other than a set amount of bulk cheddar cheese to be supplied by Bega Cheese.
- Fonterra is required to pay Bega Cheese for all cheese products supplied under the FPSA based on a formula which involves reimbursement of all costs incurred in producing the products plus an agreed return.

Bega Cheese and Fonterra have, for some time, been reviewing various aspects of the FPSA, including the component of the product pricing that represents Bega Cheese's return, and have reached in-principle agreement on certain changes to the FPSA. Those changes, if implemented, would not materially alter the key features of the FPSA as described above, although a modified costs plus pricing model is envisaged. Bega Cheese and Fonterra have recorded their in-principle agreement on those changes in a non-binding memorandum of understanding and intend to negotiate a legally binding document to be executed in the near future. In the interim, the parties have signed a deed of variation which agrees to implement the new costs plus pricing model effective from 1 June 2011. This will provide Bega Cheese with a slightly improved return. However, if Bega Cheese and Fonterra are unable to agree the terms of a legally binding agreement, product pricing will revert back to the pricing formulas applicable as at May 2011 and any improved return received by Bega Cheese from the new pricing model will be unwound and reimbursed.

9.5.2 Kraft Foods product supply agreement

In March 2009, Bega Cheese commenced supplying cheese products to Kraft Foods under a long term product supply agreement (KPSA). The KPSA was entered into in conjunction with the acquisition by Bega Cheese of the Kraft Foods' manufacturing facility at Strathmerton, Victoria. The material terms of the KPSA are summarised as follows:

- Bega Cheese is required to supply cheese products to Kraft Foods in accordance with the ordering and planning procedures set out in the KPSA.
- Kraft Foods is required to source its total requirement for its existing processed cheddar cheese products for sale in Australia and New Zealand from Bega Cheese.
- Kraft Foods is required to pay Bega Cheese a price for products supplied calculated by reference to the costs incurred in producing the products plus an agreed margin, with the production costs being determined on the assumption that certain volumes of products will be produced at the Strathmerton Facility for Kraft Foods and other parties.
- Kraft Foods is required to supply to Bega Cheese all of the bulk dairy ingredients required for the manufacture of its products.
- The term of the KPSA is 10 years with an option for Kraft Foods to extend for a further 10 years, subject to Bega Cheese's consent (with such consent not to be unreasonably withheld).

9.5.3 Mead Johnson

On 15 October 2008 TMI entered into a long term project agreement with Mead Johnson under which TMI agreed to use and operate one of its driers (known as MSD2) to produce nutritional powder for Mead Johnson. The material terms of that project agreement are summarised as follows:

- Subject to limited early termination rights, the term of the agreement continues until the end of 2018.
- From January 2012 TMI must use the MSD2 drier exclusively to produce product for Mead Johnson.
- TMI must provide the staff and site services required to operate and maintain MSD2. However, Mead Johnson representatives will be on site to oversee the production process.
- Mead Johnson is responsible for sourcing the raw materials required to produce the nutritional powder product and retains ownership of the product through the manufacturing process.
- The fees payable to TMI for the provision of the drier and the associated services are calculated under a formula which includes the reimbursement of operating costs and amounts for TMI's provision of the drier and management services.

9.5.4 Ingredia

In July 2004, Ingredia SA and TMI entered into a series of agreements that will expire in September 2013 relating to the manufacture, supply and distribution of milk protein isolate products. These include a lease of equipment and a licence of know-how associated with the production of milk protein isolate from Ingredia to TMI, an agreement under which TMI agrees to manufacture and supply milk protein isolate to Ingredia and an agreement under which Ingredia is appointed to market and sell milk protein isolate outside of Australia. Ingredia has an exclusive right to sell TMI's milk protein isolate in export markets and, subject to a small number of excluded customers, TMI is restrained from selling competing products outside of Australia during a period that extends until two years after the expiry date. On expiry of the term TMI has an option to acquire the equipment currently leased from Ingredia as well as an ongoing licence to use the Ingredia know-how.

9.5.5 Offer Management Agreement

The Offer is being managed by the Lead Manager pursuant to an Offer Management Agreement dated 18 July 2011, between Bega Cheese and the Lead Manager.

Commission, fees and expenses

Bega Cheese must pay the Lead Manager:

- a management fee equal to 2.25% of the gross proceeds resulting from the Institutional Offer and Retail Offer (excluding the Preferential Offer and the Employee Loyalty Offer); and
- a management fee equal to 0.5% of the gross proceeds resulting from the Preferential Offer.

The above fees are exclusive of GST and will become payable by Bega Cheese on the settlement date for Offer.

Bega Cheese has also agreed to reimburse the Lead Manager for certain reasonable costs and expenses incurred incidental to the Offer. The Lead Manager must pay any broker firm fees due to any co-managers and Brokers appointed by them under the Offer Management Agreement.

Warranties, undertakings and other terms

The Offer Management Agreement contains certain common representations, warranties and undertakings provided by Bega Cheese to the Lead Manager as well as common conditions.

The representations and warranties relate to matters such as the conduct of the Bega Cheese Group (including in respect of the due diligence process and compliance with applicable laws and ASX Listing Rules), information provided to the Lead Manager, information in this Prospectus and the conduct of the Offer.

Bega Cheese's undertakings include that it will not, during the period following the date of the Offer Management Agreement until:

- (i) 90 days after completion of the issue, allot or agree to allot any Shares or other securities; or
- (ii) 90 days from the Allotment Date, carry on its business in the ordinary course and not dispose or charge (or agree to dispose or charge) of any material part of its business (except as disclosed in the Prospectus) or vary any material term of any material contract except in the ordinary course of business,

without the prior written consent of the Lead Manager (subject to certain limitations).

Indemnities

Subject to certain exclusions relating to, among other things, fraud, wilful misconduct or gross negligence by an indemnified party, Bega Cheese agrees to keep the Lead Manager and its affiliated parties indemnified from losses suffered in connection with the Offer including losses arising from claims relating to any statement on or omission from the Prospectus, any advertising, publicity, statements or other materials, or any review, enquiry or investigation undertaken by a regulatory authority in relation to the Offer or the Offer Documents or any breach of the Offer Management Agreement.

Termination events

The Offer Management Agreement contains termination rights for the Lead Manager upon the occurrence of certain events at any time from the date of execution of the Offer Management Agreement until on or before the completion of the Offer. These termination rights are common for this type of agreement. In some cases the termination right of the Lead Manager is exercisable upon the occurrence of the event by notice to Bega Cheese and in other cases requires the Lead Manager to have reasonable grounds to believe that the event has or is likely to have a material adverse effect on the success, settlement or outcome of the Offer, the ability of the Lead Manager to market or promote or settle the Offer or a number of other similar effects.

9.6 Financing facilities

9.6.1 Bega Cheese

Bega Cheese has financing facilities with Rabo, a member of the international RaboBank Group. These facilities have generally been in place since 2002, and are subject to regular review and variation as circumstances change. The facilities are presently:

- \$40 million working capital facility with an expiry date of 31 December 2012 (drawn to \$24.1 million as at 30 June 2011);
- \$47.5 million term loan facility with an expiry date of 30 June 2014 (fully drawn as at 30 June 2011);
- \$20.0 million term loan facility with an expiry date of 1 July 2014 (fully drawn as at 30 June 2011); and
- \$11.9 million in guarantees to two government financial entities who have provided Bega Cheese funds for acquisitions and capital expenditure (fully drawn down as at 30 June 2011). The expiry date of the facilities is 1 November 2012 (\$9.5 million) and 30 June 2013 (\$2.4 million).

The Company has provided security of first ranking mortgages and floating charges over the assets and undertakings of the Company. The facilities contain representations and warranties usual for facilities of this nature, and they contain undertakings to provide information on a regular basis to the financiers.

The financial undertakings are summarised in section 7.8.

9.6.2 TMI

TMI has financing facilities with Westpac Banking Corporation. These facilities have generally been in place since 2006, and are subject to regular review and variation as circumstances change. The facilities are provided under a Multiple Option Facility Agreement and are presently:

- \$4.5 million overdraft facility with a term to 31 December 2012;
- \$30 million working capital facility with a term to 31 December 2012 (drawn to \$12.0 million as at 30 June 2011). At the option of TMI the facility can be increased to \$40.0 million for the period 1 September 2011 to 31 October 2011 and to \$45.0 million for the periods 1 November 2011 and 31 January 2012 and 1 September 2012 and 31 December 2012 and reverting to \$30.0 million for the period 1 February 2012 to 31 August 2012; and
- \$1.5 million performance guarantee to a third party.

TMI has provided security of first ranking mortgages and floating charges over the assets and undertakings of TMI. The facilities contain representations and warranties usual for facilities of this nature, and they contain undertakings to provide information on a regular basis to the financiers.

The financial undertakings are summarised in section 7.8.

9.7 Legal proceedings

The Directors are not aware of any litigation, pending or threatened litigation or other legal proceedings which may have a material adverse effect on the Company.

9.8 Working capital

In the opinion of the Directors, the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.

9.9 Major Shareholders

As at the date of this Prospectus the top 20 shareholders of Bega Cheese are as follows:

<i>Name</i>	<i>Number of Shares</i>	<i>as a % of shares on issue</i>
KD & JL Kimber	5,014,984	4.61
Paewai Pty Ltd	4,194,364	3.86
EK K RE & DJ Platts	3,537,956	3.26
CB & MA Moffitt	3,050,564	2.81
Aljo Pastoral Pty Ltd	3,004,984	2.77
R & R Apps Pty Ltd	2,823,972	2.60
Jerang Pty Ltd	2,664,012	2.45
Henry & Christine Kornman and Telstar Holsteins Pty Ltd	2,492,564	2.29
BR Game and MC & CL Beresford	2,179,288	2.01
GR & CA Schuhkraft	2,104,884	1.94
WF RN BJ & HJ Taylor	1,975,136	1.82
Peter Shearer	1,973,908	1.82
Warwick Farm Enterprises Pty Ltd and NG & NG Pearce	1,876,388	1.73
G & NE Lucas	1,779,996	1.64
Kameruka Estates	1,747,120	1.61
Jelgowry Pty Ltd	1,692,852	1.56
Max & Sue Roberts	1,675,000	1.54
BJ & CA Cochrane	1,652,264	1.52
Stephen John & Mary Guthrey	1,612,156	1.48
DR & RL Love	1,561,080	1.44
Total	48,613,472	44.73

9.10 ASX and ASIC waivers

ASX has notified the Company, based solely on information provided to it, that on receipt of an application for admission to the Official List by the Company before 3 September 2011, ASX would be likely to do each of the following:

- a. Consider the Company's structure and operations in relation to having shareholding limits of a maximum of:
 - i. 5 percent up to 2 years from the Company's admission to the Official List of ASX;
 - ii. 10 percent between 3 and 5 years from the Company's admission to the Official List of ASX; and
 - iii. 15 percent between 6 and 10 years from the Company's admission to the Official List of ASX, (Shareholding Limit Provisions), and contained in clause 3 of the Company's proposed Constitution to be appropriate for the purposes of listing rule 1.1 condition 1.
- b. Consider the disenfranchisement provisions (Disenfranchisement Provisions) contained in clause 3 of the Constitution, to be appropriate and equitable under Listing Rule 6.10.5, for so long as the Constitution contains the Shareholding Limit Provisions.
- c. Consider the divestment provisions (Divestment Provisions) contained in clause 3 of the Constitution (and as described in section 9.4), to be appropriate and equitable under Listing Rule 6.12.3, for so long as the Constitution contains the Shareholding Limit Provisions.

This advice from ASX is subject to the following conditions:

- Full details of the Shareholding Limit, Divestment and Disenfranchisement Provisions are provided to any subscriber for the Company's securities under a disclosure document.
- The Company providing an undertaking in the form of a deed that in each annual report prepared by the Company, during which the Shareholding Limit Provisions operate, it will include full details of the:
 - Shareholding Limit Provisions;
 - Divestment Provisions; and
 - Disenfranchisement Provisions.
- The Divestment and Disenfranchisement Provisions in the Company's Constitution only authorise the divestment and disenfranchisement of a shareholder's securities that have exceeded the Shareholding Limit to the extent of the part of the holding which is in excess of the Shareholding Limit.
- The Shareholding Limit Provisions shall cease 5 years after admission to the Official List of ASX, unless its continuation for a further period of no longer than 5 years has been approved by an ordinary resolution of shareholders prior to the expiry of that 5 year period.

ASIC has granted the following exemptions from, and modifications to, the Corporations Act:

- relief from the pre-prospectus advertising and publicity rules in section 734(2) of the Corporations Act to permit Bega Cheese to provide Bega Cheese Group employees and Existing Shareholders with certain information in relation to the Offer; and
- modification of the pre-prospectus advertising and publicity rules in section 734(5) of the Corporations Act to allow advertisements and publications explaining how to register an interest in receiving a Prospectus.

9.11 Dividend re-investment plan

The Company has adopted a dividend reinvestment plan which will provide Shareholders with the choice of reinvesting dividends paid on Shares by applying all or part of those dividends to acquire additional Shares, rather than receiving the dividends in cash.

Participation in the DRP is optional and open to all Shareholders holding fully paid ordinary shares, other than those whose registered addresses are in jurisdictions outside of Australia where participation may be unlawful. Shareholders can elect to participate in the DRP by completing and returning the application form provided by the Share Registry in respect of all or some of their Shares. No action is required by a Shareholder who wishes to receive cash dividends.

The rules of the DRP are typical of a dividend reinvestment plan operated by an ASX listed company, including that:

- The price at which each Share is issued under the DRP in respect of a dividend will be based on the market price of Bega Cheese Shares less a discount (if any) as determined by the Board;
- The DRP may be varied, terminated or suspended by the Board at any time in accordance with the DRP rules; and
- Bega Cheese will bear all administration costs associated with the DRP and there is no brokerage, stamp duty or other charges payable by Shareholders in respect of new Shares issued to Shareholders under the DRP.

A copy of the DRP rules will be available on www.begacheese.com.au.

9.12 Employee Loyalty Offer

The Board has established two Employee Share Plans, namely the Tax Exempt Plan and the Incremental Plan, as described below. Copies of the rules and general tax advice applicable to the Employee Loyalty Offer is available at www.begacheese.com.au. The Employee Loyalty Offer comprises offers made to Qualifying Employees to subscribe for New Shares made under the Employee Share Plans pursuant to this Prospectus and subject to the listing of Bega Cheese. The Shares, or in the case of certain senior executives allocated rights to subscribe for and be issued Shares, will be issued on the Listing Date.

It is expected that up to 850,000 New Shares will be issued of which approximately 250,000 will be issued under the Tax Exempt Plan and 600,000 under the Incremental Plan. Within the Incremental Plan approximately 277,500 New Shares will be issued on the Listing Date and 322,500 rights to shares will be issued to certain senior executives.

Tax Exempt Plan

All Qualifying Employees of Bega Cheese (which, under this plan, excludes certain senior executive staff), will be offered the right to subscribe for 250 New Shares under the Tax Exempt Plan. No amount is payable by Qualifying Employees for these New Shares. The Tax Exempt Plan has been structured so as to enable Qualifying Employees to receive up to \$1,000 worth of New Shares under the Plan free of income tax provided conditions in the current Australian tax legislation are satisfied.

In accordance with the requirements of the tax legislation, New Shares acquired under the Tax Exempt Plan cannot be disposed of (e.g. by sale) until the earlier of three years after the date on which they are issued and the date on which the holder ceases to be an employee of Bega Cheese or one of its subsidiary companies. This restriction will be enforced through a holding lock that will be put in place by Bega Cheese. The holding lock will not affect the right to receive dividends or vote in respect of the Shares.

Awards made to Qualifying Employees under the Tax Exempt Plan will be tax free, provided the plan is operated to comply with the restriction period provisions and that the employee's adjusted taxable income for the year does not exceed \$180,000. Adjusted Taxable Income (ATI) is calculated as the employee's taxable income for the year, plus the sum of reportable employer superannuation contributions and reportable fringe benefits and less any net investment losses for the year. If a Qualifying Employee's ATI exceeds \$180,000 then the value of the New Shares will be taxable at grant. Disposal of the New Shares after the restriction period will be subject to CGT. The cost base for CGT purposes will be the Retail Offer price per New Share received.

Incremental Plan

The Incremental Plan has been designed to comprise of two elements, being a Loyalty Award and a Retention Award.

Loyalty Award

The Incremental Plan allows the Board to offer Qualifying Employees under the Plan the right to subscribe for a number of New Shares determined by the Board based on considerations such as their position within and period of service with Bega Cheese. The Board has identified the number of New Shares to be offered to each Qualifying Employee under this Prospectus as part of the Employee Loyalty Offer (in addition to the New Shares allocated under the Tax Exempt Plan). No amount is payable by Qualifying Employees for these New Shares but, unlike the New Shares issued under the Tax Exempt Plan, the New Shares issued under the Incremental Plan will not be subject to any restrictions on sale.

The New Shares received by Qualifying Employees will be subject to income tax at the time of issue based on the Retail Offer price of New Shares. Disposal of the Shares more than 30 days after they are issued to Qualifying Employees will be subject to CGT. The cost base for CGT purposes will be the Offer Price.

Retention Award

The Board will also utilise the Incremental Plan to allocate rights to certain senior executives to subscribe for and be issued with New Shares in 12 months time for no monetary payment, subject to them remaining Bega Cheese employees. The market value of New Shares will be subject to income tax when the New Shares are delivered to the employee free of disposal restrictions. Disposal of the New Shares more than 30 days after they are issued to these Qualifying Employees will be subject to CGT. The cost base for CGT purposes will be the market value of the New Shares on the date of issue.

Personalised Letters

Bega Cheese will seek to provide all Qualifying Employees with a personalised letter in respect of their entitlement under the Employee Loyalty Offer.

9.13 Taxation considerations

Introduction

The Company has sought and obtained from the Australian Taxation Office a binding Class Ruling in respect of the material income tax consequences of the corporate restructure approved by Shareholders in April 2011. A link to this ruling will be available on the Company's website once the ruling is made public. The key matters confirmed by the Class Ruling are that the four for one share split will not give rise to a capital gain or loss and the conversion of A Class and B Class Shares that is effective on the date this Prospectus is lodged with ASIC will not result in any capital gain arising or assessable income being derived in the hands of the holders of Shares.

The comments below provide a general summary of Australian tax issues for Australian tax resident Shareholders who hold their Shares on capital account. This summary is based on the law in Australia in force at the time of issue of this Prospectus. It is general in nature and is not intended to be a complete statement of the applicable law. Shareholders should seek professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

Dividends

Dividends paid will constitute assessable income. Australian tax resident Shareholders who are individuals or complying superannuation entities should include in their assessable income the dividend actually received, together with any franking credit attached to that dividend. Such Shareholders should be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

For corporate Shareholders, excess franking credits received cannot give rise to a refund, but may be able to be converted into carry forward tax losses. Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the franking credit that the beneficiary or partner has received from the trust or partnership as the case may be.

Disposal of Shares

The disposal of a Share acquired after 19 September 1985 by a Shareholder may give rise to a taxable capital gain or loss. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the Share. A CGT discount may be applied against the capital gain where the Shareholder is an individual, complying superannuation entity or trustee and the Shares have been held for more than 12 months. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one third, after offsetting current year or prior year capital losses.

A capital loss will be realised where the reduced cost base of the Share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

Other

A Shareholder is not required to quote their tax file number (TFN) to the Company. However, if TFN or exemption details are not provided, tax may be required to be deducted by the Company from dividends at the maximum marginal tax rate plus the Medicare levy.

Investors should not be liable for GST in respect of their investment in Shares.

9.14 New Zealand mutual recognition

This Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008. This Offer and the content of the Offer Documents are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the Offer must be made. There are differences in how securities are regulated under Australian law. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this Offer. If you need to make a complaint about this Offer, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

Payments that are not in New Zealand dollars

The Offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

Securities that are able to be traded on a financial market

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

9.15 Directors' interests and benefits

Other than as set out in this Prospectus, no Director or proposed Director of the Company and no firm in which a Director or proposed Director of the Company is a partner, has or has had in the last two years before lodgement of this Prospectus, an interest in the Offer, or in the promotion of the Company, or any property acquired or proposed to be acquired by the Company and no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid to any Director or proposed Director of the Company (or any firm in which a Director is a partner) either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company or the Offer.

Section 9.16 contains details of remuneration arrangements.

The relevant interests of Directors in Shares as at the date of this Prospectus and the average milk supplied over the last two years are set out below:

<i>Name</i>	<i>Relevant Interest</i>	<i>Relevant Interest as % of current shares on issue</i>	<i>Average milk supplied FY2010 and FY2011 (litres)</i>
Barry Irvin	3,004,984	2.8	1,817,191
Maxwell Roberts	1,675,000	1.5	2,280,066
Richard Parbery	2,664,012	2.5	5,154,543
Thomas D'Arcy	1,280,276	1.2	2,161,497
Richard Platts	3,537,956	3.3	4,242,940
Peter Margin	-	-	-

Directors are entitled to participate in the Offer of Shares.

9.16 Directors' remuneration

The Constitution provides that the non-executive Directors are entitled to remuneration for their services as determined by the Company in general meeting (the current limit is \$900,000) to be apportioned among them in such manner as the Directors agree, and, in default of agreement, equally. Based on expert advice that it has received in relation to the fees that Bega Cheese should pay to Directors once it becomes a listed company, the following proposed annual Directors fees (inclusive of superannuation) have been determined:

Chairman	\$175,000
Other Directors	\$70,000
Further fee for Chair of each Board Committee	\$12,000

If a non-executive Director performs services, which are outside the scope of the ordinary duties of a Director or makes any special exertion in connection with the affairs of the Company, the Board may resolve to pay extra remuneration to that Director.

The remuneration of any Executive Director is determined by the Directors after recommendations are received from the Nomination and Remuneration Committee. The remuneration may be by way of salary or commission or participation in profits but may not be commission on, or a percentage of, operating revenue. Accordingly, in addition to the fee Mr Irvin receives as Chairman of the Board, he also receives an annual salary and other benefits as an employee (including superannuation) for the executive services he provides to the Company. Currently that annual amount is \$425,000, which includes an annual incentive amount (inclusive of superannuation) of \$100,000, less any amounts received by Mr Irvin in his position as a director of the Boards of WCB, TMI and the Gardiner Foundation (estimated to be \$135,000).

9.17 Other related party transactions

In addition to the amounts paid to Directors referred to in section 9.16, Messrs Irvin, Roberts, Parbery, D'Arcy and Platts are Farmer Suppliers to the Company. As is the standard industry practice, the agreements to supply milk between those Directors and the Company, respectively, are informal contracts. These Directors supply milk to the Company on the same terms and conditions on which the Company's Farmer Suppliers from the same geographic region supply milk to the Company.

Two senior executives, Mr Maurice van Ryn and Mr Colin Griffin previously had employment contracts that contained termination notice provisions that were inconsistent with the ASX Listing Rules. Both of these employment contracts have been varied so that they comply with the Listing Rules. In consideration for agreeing to this variation, the Company has agreed to issue them additional rights to Shares under the Incremental Plan component of the Employee Loyalty Offer. This means that they will each be entitled to subscribe for rights to Shares to a value of

\$125,000 based on the Offer Price. This cost is included in the total cost of the Employee Loyalty Offer disclosed elsewhere in this Prospectus.

9.18 Deed of access and indemnity

Each of the Directors will enter into an deed of access and indemnity with Bega Cheese. Under the deed, Bega Cheese agrees in favour of the Director to:

- provide certain indemnities to the Director, to the extent permitted by law, against all losses or liabilities (including for negligence and legal costs) incurred by the director as an officer of any company in the Bega Cheese Group.
- advance funds to the Director for reasonable costs and expenses incurred by the Director as an officer of the Bega Cheese Group where it is not yet clear that the Director will be entitled to claim those costs and expenses under the indemnity. The Director will be required to repay the advance in the event that the Director is not permitted by law to be indemnified for those costs and expenses.
- maintain Director and officer liability insurance for the tenure of the Director and for a period of 7 years after (or until any outstanding claim has been resolved).
- maintain the records of the Bega Cheese Group and provide the Director with access to those records during the tenure of the Director and for a period of 7 years after.

9.19 Chief Executive Officer's agreement

Mr Aidan Coleman, who has been the CEO of the Bega Cheese Group since 10 May 2011, is employed under a written executive agreement. From 1 July 2011, Mr Coleman's fixed annual base salary (inclusive of superannuation) will be \$700,000 (Annual Base Salary). He will also be entitled to an annual incentive amount (inclusive of superannuation) of \$300,000, subject to his achievement of performance requirements set out by the Company.

Following the IPO, the agreement also proposes the establishment of an Equity Incentive Scheme (EIS) under which Mr Coleman may be entitled to additional remuneration in the form of Bega Cheese Shares. The indicative terms of that Scheme are as follows:

- (a) The Company will calculate the value weighted average price of Company shares traded on ASX during the period of 30 trading days from the Listing Date (VWAP).
- (b) If the prices at which all Shares in the Company bought and sold in the ordinary course of trading on ASX during a continuous three month period after the Listing Date is at least 150 percent of the VWAP (First Target Price), Mr Coleman will become entitled to a bonus of \$500,000 (First Bonus Amount) to be applied in accordance with the EIS.
- (c) If the prices at which all Shares in the Company bought and sold in the ordinary course of trading on ASX during a continuous three month period after the Listing Date is at least 200 percent of the VWAP (Second Target Price), Mr Coleman will become entitled to a bonus of \$1.0 million (Second Bonus Amount) to be applied in accordance with the EIS.
- (d) If the prices at which all Shares in the Company bought and sold in the ordinary course of trading on ASX during a continuous three month period after the Listing Date is at least 250 percent of VWAP (Third Target Price), Mr Coleman will become entitled to a bonus of \$1.5 million (Third Bonus Amount) to be applied in accordance with the EIS.
- (e) In establishing and documenting the EIS, it is possible that some part of the bonus amounts referred to above will be earned from a combination of share price gains as above and the achievement of some yet to be determined return on investment or other financial criteria.
- (f) If Mr Coleman becomes entitled to a bonus under the EIS, an amount equal to the bonus, net of tax, will be applied by the Company to acquire shares in the Company on behalf of Mr Coleman.
- (g) Shares in the Company acquired on behalf of Mr Coleman under the EIS (Scheme Shares) will, at the discretion of the Company, be either purchased on ASX in the ordinary course of trading at prices not exceeding 5 percent above the relevant target price or be issued to Mr Coleman at the relevant Target Price.
- (h) The maximum total bonus amount to which Mr Coleman may be entitled under the EIS is \$3.0 million.

- (i) All Scheme Shares will be subject to escrow restrictions for the period of 12 months after they are acquired by or issued. The escrow restrictions will be substantially the same terms as contained in the Restriction Agreement set out in Appendix 9A of ASX Listing Rules. The restrictions on the sale of Scheme Shares will be qualified so as to enable him to accept an offer under a takeover bid once the holders of at least one half of the Shares in the bid class have been accepted the takeover bid or to enable the Scheme Shares to be transferred or cancelled under a court approved scheme of arrangement.
- (ii) If the Executive's employment is terminated for any reason, all entitlements (and escrow restrictions) under the EIS will cease.

The agreement does not have a fixed term but either party can terminate it on six months' notice. In addition, the agreement includes standard rights in the Company to terminate the agreement immediately if Mr Coleman commits a serious breach of his obligations, engages in serious misconduct, becomes bankrupt, is convicted of a crime, becomes of unsound mind, or becomes permanently incapacitated by reason of accident or illness.

9.20 Disciplinary action/insolvencies

None of the Directors, CEO or direct reports to the CEO has been subject to any criminal convictions, declarations under s1317E of the Corporations Act or personal bankruptcies, disqualifications or disciplinary actions. Nor have any of them been an officer of a company that has entered into a form of external administration during the time the person was an officer or within a 12 month period afterwards.

9.21 Consents and liability statements

Kidder Williams has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as corporate adviser to the Company in the form and context in which it is named.

Addisons Commercial Lawyers has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as legal adviser to the Company in the form and context in which it has been named.

PwC Securities has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as Investigating Accountants and to the inclusion of their Investigating Accountant's Report in the form and context in which it appears.

PwC has given, and at the time of lodgement of this Prospectus have not withdrawn, their consent to be named in this Prospectus as auditor of the Company in the form and context in which it has been named, and the inclusion in this Prospectus of information from the audited financial statements of the Company.

Peter Radford & Co has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as Taxation Adviser to the Company in the form and context in which it has been named.

Link Market Services has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as Share Registry to the Company in the form and context in which it is named.

CBA Equities has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as lead manager to the Offer in the form and context in which it has been named.

Austock Securities has given, and at the time of lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as co-manager to the Offer in the form and context in which it has been named.

Each person referred to in this section has not authorised or caused the issue of this Prospectus and expressly disclaims and takes no responsibility for any statements or omissions in the Prospectus except as stated above.

9.22 Other interests of people involved in the Offer

Other than as set out below or elsewhere in this Prospectus, no person named in this Prospectus as performing any function in a professional, advisory or other capacity in connection with this Prospectus, nor any firm in which such person is a partner or employee has:

- within the two years before lodgement of this Prospectus, any interest in the promotion of the Company, in any property acquired or proposed to be acquired by the Company or in the offer of Shares under this Prospectus; or
- been paid or agreed to be paid any benefit for the services provided by that person in conjunction with the formation or promotion of the Company or the Offer.

Kidder Williams has acted as corporate adviser to the Company. In consideration for their services, they will be paid \$0.8 million (excluding disbursements and GST).

Addisons Commercial Lawyers has acted as legal adviser to the Company. In consideration for their services, they will be paid \$0.65 million (excluding disbursements and GST).

PwC Securities have acted as the investigating accountant. In consideration for their services they will be paid \$0.52 million (excluding disbursements and GST).

Peter Radford & Co has acted as the taxation adviser. In consideration for their services they will be paid \$0.08 million (excluding disbursements and GST).

CBA Equities has acted as lead manager to the Offer. In consideration for their services they will be paid the amount in accordance with the Offer Management Agreement referred to in section 9.5.5. The Lead Manager has agreed to pay from its fees any fees payable to the Co-manager to the Offer.

9.23 Expenses of the Offer

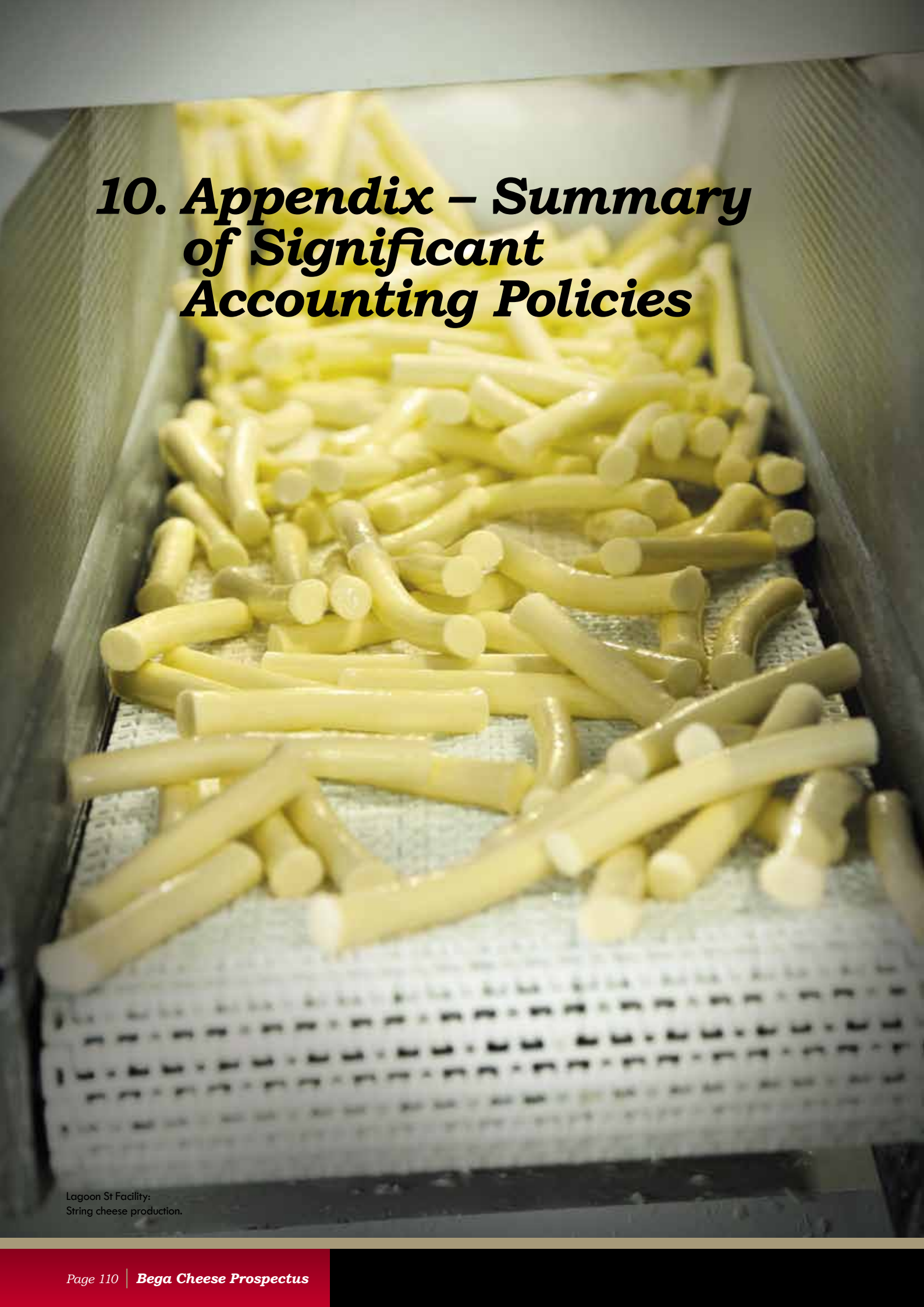
The total expenses of the Offer payable by the Company are estimated at approximately \$3.5 million. These expenses include financial, legal, accounting and taxation advisory fees, broker fees, ASX listing fees, shareholder communication and Prospectus printing and other costs. No stamping fees to other brokers will be paid under the Offer.

9.24 Director's statement and signature

Each Director has given and has not, at the date of this Prospectus, withdrawn his consent to the lodgement of this Prospectus with ASIC. This Prospectus has been signed under section 351 of the Corporations Act for lodgement with ASIC by Mr Barry Irvin, Executive Chairman.

B. A. Irvin

Barry Irvin
Executive Chairman

A close-up photograph of a metal tray filled with numerous yellow string cheese sticks. The sticks are piled together, some showing their circular ends. The tray has a perforated metal surface. The background is slightly blurred, showing more of the same cheese sticks.

10. Appendix – Summary of Significant Accounting Policies

Lagoon St Facility:
String cheese production.

10. Appendix – Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the pro forma information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The pro forma information has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The pro forma information has been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

The preparation of pro forma information in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

b. Principles of consolidation

Joint ventures

The interest in a joint venture is accounted for in the consolidated financial statements using the proportionate consolidation method. Under proportionate consolidation the share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the financial statements.

Profits or losses on transactions establishing the joint venture and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bega Cheese and the results of all subsidiaries for the year then ended. Bega Cheese and its subsidiaries together are referred to as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for all business combinations by the Group (refer to note (g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bega Cheese's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in comprehensive income.

d. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

- Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed to the buyer the significant risks and rewards of ownership of the goods.
- Royalties and rental is recognised on an accrual basis in accordance with the substance of the relevant agreement.
- Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.
- Dividends are recognised when the right to receive payment is established.

e. Interest expense

All line fees associated with finance facilities are included in interest expense.

f. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

g. Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

h. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit). The reversal of an impairment loss is recognised immediately in income unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

i. Cash and cash equivalents

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within 'administration expense'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expense in profit or loss.

k. Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

l. Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re evaluates this designation at the end of each reporting period.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Certain shares held by the Group are classified as being available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in reserves with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in profit or loss for the period.

Regular purchases and sales of financial assets are recognised on trade date the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

m. Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. The Group does not enter into derivative financial instruments for speculative purposes.

The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

n. Cash flow hedge

The effective portion and changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

o. Fair value hedge

Change in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised through comprehensive income, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

p. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings 20 – 40 years
- Plant and equipment 5 – 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

q. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

s. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to anyone item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

t. Employee benefits

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. All employees receive fixed contributions from the Group and the Group's legal or constructive obligation is limited to these contributions.

u. GST

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.



Bulk cream cheese line at TML.



Strathmerton Facility: Bega processed cheese block for the export market.

11. Definitions



TMI: Multi-stage dryer

11. Definitions

A-IFRS	Australian International Financial Reporting Standards.
Allotment Date	The date on which Shares issued under this Prospectus will be allotted to successful Applicants.
Applicant	A person who submits an Application Form (paper or electronic) to subscribe for Shares under this Prospectus.
Application	A valid application made by an Applicant to acquire Shares pursuant to the Offer.
Application Form	An application form accompanying this Prospectus including an entitlement and acceptance form under the Employee Loyalty Offer.
Application Monies	Monies received from Applicants in respect of their Applications.
AEST	Australian Eastern Standard Time.
ASIC	Australian Securities and Investments Commission.
Associate	The meaning given in the Corporations Act.
ASX	ASX Limited, or, where the context requires, the financial market it operates.
ASX Listing Rules	The listing rules of the ASX.
Auditors or PwC	PricewaterhouseCoopers ABN 52 780 433 757, the auditors of the Company.
Bega Cheese or Company	Bega Cheese Limited ABN 81 008 358 503.
Bega Cheese Group or Group	Comprises Bega Cheese, its subsidiary (TMI) and its investments (primarily CCFA and WCB). Note: Operating statistics for the Group, such as milk received and production does not include the operations of CCFA and WCB.
Board	The board of Directors of the Company from time to time.
Broker	An ASX participating organisation selected by the Lead Manager to participate in the Retail Offer, and may include the Lead Manager or any of its related bodies corporate.
Broker Firm Applicant	Australian residents who are sophisticated or professional investors (within the meaning of sections 708(8) and 708(11) of the Corporations Act, respectively) and, following the lodgement of this Prospectus, Australian and New Zealand resident investors who are not Institutional Investors and have received a firm allocation from their Broker.
Broker Firm Offer	The invitation to Broker Firm Applicants to apply for New Shares under this Prospectus, as described in section 2.
CBA Equities or Lead Manager	CBA Equities Limited ABN 76 003 485 952.
CBA Retail Offer	The invitation to Eligible Commonwealth Bank Customers to apply for New Shares, made pursuant to this Prospectus, as described in section 2.
CCFA	Capitol Chilled Foods (Australia) Pty Limited ABN 14 074 590 757.
CEO	The Chief Executive Officer of the Company.
CGT	Capital Gains Tax.
CHESS	The Clearing House Electronic Subregister System.
Closing Date	The closing date of the Offer, which is expected to be 16 August 2011.
Coburg Facility	The milk processing and cheese manufacturing facility operated by the Company at Coburg, Victoria.
Commonwealth Bank	Commonwealth Bank of Australia ABN 48 123 123 124.
Co-manager	The co-manager of the Offer being Austock Securities Ltd ABN 51 053 513 438.
Constitution	The constitution of the Company to be adopted effective on the date of this Prospectus.
Corporations Act	Corporations Act 2001 (Cth).
Director	A Director of the Company.
DRP	Dividend Re-investment Plan as described in section 9.11.

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
Eligible Commonwealth Bank Customer	A person the Lead Manager considers (in its discretion) is a resident of Australia or New Zealand and who is either a Commonwealth Bank customer or may have obtained a Prospectus from a Commonwealth Bank branch, and in each case who is also a Retail Investor.
Eligible Employee	A person who is a permanent or casual (with at least three months service) employee of Bega Cheese or of TMI as at 5.00pm on 30 June 2011 and who had not resigned at that time.
Eligible Farmer Supplier	A person who is a milk supplier to the Bega Cheese Group as at 5.00pm on 30 June 2011, who is not an Existing Shareholder or a TMI Redeemable Preference Shareholder.
Eligible Person	A person whom the Board in its sole discretion nominates to receive an invitation to apply for New Shares, made pursuant to this Prospectus.
Eligible Resident	A person whose ordinary residential address is in the NSW postcode areas of 2546, 2548, 2549, 2550 or 2551.
Eligible Shareholder	A person who is either an Existing Shareholder or a TMI Redeemable Preference Shareholder (or both) as at 5.00pm on 30 June 2011.
Employee Loyalty Offer	The invitation to Qualifying Employees to apply for Shares, made pursuant to this Prospectus for no monetary payment.
Existing Shares	Shares in Bega Cheese held by Existing Shareholders as at the date of this Prospectus. There are currently two classes of shares (Class A and Class B). These shares will convert to a single ordinary Share class on the day this Prospectus is lodged with ASIC.
Existing Shareholders	Current shareholders of Bega Cheese as at the date of this Prospectus.
Farmer Supplier	A person who actively supplies milk to the Company or any of its related bodies corporate, including a person who supplies milk in partnership with others or as a sharefarmer.
Fonterra	Fonterra Brands (Australia) Pty Limited ABN 80 095 181 669, a subsidiary of the New Zealand based Fonterra Group Co-op Ltd.
FPSA	Product Supply Agreement with Fonterra dated 8 May 2001 as varied by amending deeds dated 13 December 2001 and 16 June 2011.
FMCG	Fast moving consumer goods.
FTE	Full time equivalent.
FTML	The trade mark licence and sub-licence agreements between Bega Cheese and Fonterra dated 8 May 2001.
FY	Financial Year ended 30 June of any year (eg. FY2010 means the Financial Year to 30 June 2010).
FY2011 Forecast and FY2011F	The forecast operating results based on the actual result for the period 1 July 2010 to 27 March 2011 and a forecast to the period from 28 March 2011 to 30 June 2011.
GST	Goods and Services Tax.
Institutional Investors	Investors in: a) Australia who are wholesale clients under section 761G of the Corporations Act and either 'professional investors' or 'sophisticated investors' under section 708(11) and 708(8) of the Corporations Act; b) New Zealand whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money, pursuant to section 3(2)(a)(iii) of the Securities Act 1978 (NZ); and c) certain other jurisdictions as agreed by the Lead Manager and the Company to whom an offer of New Shares may lawfully be made without the need for a lodged or registered disclosure document or filing with, or approval by, any governmental agency, and in each case who are not US Persons and are not acting for the account or benefit of US Persons.

Institutional Offer	The invitation to Institutional Investors to apply for New Shares, made pursuant to this Prospectus, as described in section 2.10.
IPO	Initial Public Offer of Shares.
Investigating Accountant	PricewaterhouseCoopers Securities Ltd ABN 54 003 311 617.
Holding Statement	A statement issued to a Shareholder by the Share Registry which sets out the number of Shares issued to that Shareholder.
H1	First six months period of a FY.
Kidder Williams	Kidder Williams Limited ABN 81 117 667 204.
Kraft Foods	Kraft Foods Limited ABN 15 004 125 071.
KPSA	Product Supply Agreement with Kraft Foods dated 15 December 2008.
Lagoon St Facility	The milk processing and cheese manufacturing facility operated by the Company at Bega, NSW.
Lead Manager	CBA Equities Limited ABN 76 003 485 952.
Listing Date	The date on which the Company is admitted to the Official List of ASX and quotation of the Shares commences.
Listing Rules	The official listing rules of ASX.
Mead Johnson	Mead Johnson Nutrition (Australia) Pty Ltd ABN 83 123 039 921.
Merger	The proposed full merger of TMI with Bega Cheese by Bega acquiring the 30 percent interest in TMI that it currently does not own.
Merger Principles Agreement or MPA	The agreement dated 9 March 2011 whereby the Boards of Bega Cheese and TMI agreed to conduct the Merger.
MPI	Milk Protein Isolate.
New Shares	Shares issued under this Prospectus.
Offer	The invitation to apply for New Shares made pursuant to this Prospectus comprising the Retail Offer and the Institutional Offer, as described in section 2.
Offer Documents	i. the Prospectus; ii. the Application Form; iii. any supplementary prospectus; iv. any written materials that are presented or provided to prospective investors (including any roadshow presentations); and v. any advertising or publicity documents, notices or reports.
Offer Period	The period from the Opening Date to the Closing Date.
Offer Price	\$2.00 per New Share.
Official List	The official list of entities that ASX has admitted and not removed
Opening Date	The opening date of the Offer, which is expected to be 26 July 2011.
Preferential Offer	The invitation to Eligible Shareholders, Eligible Employees, Eligible Milk Suppliers, Eligible Residents and Eligible Persons to apply for New Shares, made pursuant to this Prospectus, as described in section 2.
Prospectus	This Prospectus both in print and electronic form, as modified or varied by any supplementary document lodged with ASIC.
Public Information	Public and other media statements made by the Bega Cheese Group in relation to the business or affairs of the Bega Cheese Group or the Offer.
PwC Securities	PricewaterhouseCoopers Securities Ltd ABN 54 003 311 617, the Investigating Accountant.
Qualifying Employees	A person who is a permanent or casual (with at least three months service) employee of Bega Cheese as at 5.00pm on 30 June 2011 and who has not resigned at that time.
Rabo	Rabo Australia Ltd ABN 39 060 452 217.
Retail Applicant	An Australian or New Zealand resident client of a Broker who is offered a firm allocation of New Shares under the Retail Offer.

Retail Investor	An investor who is not an Institutional Investor.
Retail Offer	The Preferential Offer, the Employee Loyalty Offer, the Broker Firm Offer and the CBA Retail Offer.
RMPP	Regional Milk Price Premium.
Ridge St Facility	The cheese processing, cutting and packaging facility operated by the Company at Bega, NSW.
Shares	Ordinary shares in the capital of the Company.
Shareholder	A registered holder of Shares.
Shareholding Limit	The maximum shareholding limit permitted under the Constitution as described in section 9.4.
Share Registry or Link Market Services	Link Market Services Limited ABN 54 083 214 537.
Strathmerton Facility	The cheese processing, cutting and packaging facility operated by the Company at Strathmerton, Victoria.
Supplier Director	A Director who is, or is the representative of a body corporate that is, a Farmer Supplier.
Tatura Milk Industries or TMI	Tatura Milk Industries Limited ABN 66 006 603 970, which owns and operates a dairy manufacturing facility at Tatura, Victoria.
TMI Merger Period	The period of two years from the date on which Bega Cheese becomes the registered holder of all of the shares in TMI pursuant to a scheme of arrangement or other transaction implemented under a merger agreement, subject to TMI remaining a wholly owned subsidiary of Bega Cheese during that period.
TMI RPS	Redeemable Preference Shares issued by TMI.
TMI Redeemable Preference Shareholder	A holder of redeemable preference shares in TMI.
TMI Supplier Director	A Director who is, or the representative of a body corporate that is, a supplier to TMI.
Taxation Adviser	Peter Radford & Co, Chartered Accountants.
US	United States of America.
US Person	Has the meaning given by Regulation S under the United States Securities Act of 1933, as amended.
WCB	Warrnambool Cheese & Butter Factory Holdings Ltd ABN 15 071 945 232.

Preferential Offer Application form

Preferential Offer Application form

Preferential Offer Application form

Preferential Offer Application form

CBA Retail Offer Application form

CBA Retail Offer Application form

Directory

Directors

Barry Irvin, AM
Maxwell Roberts
Richard Parbery, FCPA
Thomas D'Arcy, Dip. App. Sc (Dairy Tech),
Dip Ag, GAICD
Richard Platts, Adv Dip Agr, GAICD
Peter Margin, MBA, BSc (Hons)

Chief Executive Officer

Aidan Coleman, BA, BBS, GAICD

Company Secretaries

Colin Griffin, BA in Accounting, CA
Brett Kelly, B.Comm, CA, GAICD

Registered Address

23-45 Ridge Street
Bega NSW 2550

Share Registry

Link Market Services Ltd
Locked Bag A14
Sydney NSW 1235

Prospectus contact details

1300 365 969 or (02) 8280 7616
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CBA Retail Offer queries

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