



**Bega Cheese AGM
25 October 2016**

SLIDE 1

Welcome to Bega Cheese's Annual General Meeting, which is being recorded and webcast. As we have a quorum, I now declare the meeting open.

When you registered this morning, you will have received an admittance card. For all shareholders and proxy holders who are voting, you should have received a yellow voting card. If you are a shareholder who is not voting you should have received a blue card. If you are a non-shareholder you will have received a red card.

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

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

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

Further information regarding voting procedures will be provided prior to commencement of the resolutions to be put to the meeting.

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

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At today's meeting, we have a number of formalities to deal with inclusive of the consideration of the Group's 2015 Annual Report, the adoption of the Remuneration Report, the election of Directors and Directors fee pool increase.

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I am pleased to welcome new shareholders and our long term shareholders who know the company so well and have supported the strategy and Directors of the company over many years.

Let me introduce my fellow Directors, Max Roberts, Richard Parbery, Richard Platts, Peter Margin, Raelene Murphy, Jeff Odgers and Rick Cross. I am also pleased to welcome Steve Bourke representing our auditors PricewaterhouseCoopers, our legal counsel David Ferguson from Addisons, David Williams and Tim Faulkner from our corporate advisors Kidder Williams, Link Market Services Limited, who will assist as required in the counting of votes in respect of all resolutions to be put to the meeting and a number of Bega Cheese staff.

Are there any apologies?

SLIDE 4

I am pleased to present along with Bega Cheese CEO Aidan Coleman the FY2016 annual report. I would appreciate if you could hold your questions until the end of Aidan's and my presentation.

SLIDE 5

Ladies and Gentlemen, I always think that it is important to judge performance and value creation in context.

The 2016 financial year was one in which global supply and demand continued to be out of balance with significant increases in production (particularly in Europe), a slowdown in demand from the world's largest dairy importer (China) and sanctions preventing supply from many exporting dairy regions into the world's second largest dairy importer (Russia).

The result of a global over supply of dairy products was continued downward pressure on dairy commodity prices and significant competition in all markets in value added dairy products. Competition in all dairy markets was vigorous and the Australian market was no exception. In fact it could be argued that the Australian market saw more aggressive competition than many of the established markets in the world.

It is well documented that in Australia, with its exposure to global dairy commodity prices and a highly competitive domestic market the farm gate milk prices that were being offered or in some cases projected were for a number of companies, not a reflection of the returns that could be extracted from the market place.

It is through this lens that I review the performance of Bega Cheese in the FY2016 year. In a year of challenge Bega Cheese remained focused on our well established strategy, responded to our customers needs, delivered growth and sound financial performance and remained true to the company's values.

The achievements of the FY2016 were significant in that despite global commodity price reductions and a highly competitive market the company was able to achieve revenue growth of 7.5% to almost \$1.2 billion, report an improved financial performance, continue to invest in our capacity and capabilities, announce an increase in dividend, honour our milk price commitments to our farmers and reduce debt further strengthening our balance sheet.

Looking at the result in a little more detail.

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I am very pleased to report a solid financial performance from the company. Growth in revenue of 7.5% to \$1.2 billion was driven by strong performances from our nutritionals business platform and dairy foods business platform particular in retail and food service markets.

The improved EBITDA and profit after tax reflected the increase in sales of higher value/higher margin products in our key nutritionals and dairy foods platforms.

While significant increases in statutory EBITDA and PAT are pleasing to report we have in previous years normalised our result taking into account the impact of the gains from the Warrnambool Cheese and Butter share sale and cost associated with the Milk Sustainability

and Growth Program. The major impact of these two items were in the FY2014 and FY2015 years however we still believe it is a better reflection of the underlying business performance if we make year on year comparisons from a normalised perspective.

SLIDE 7

The normalised results for the business reflects the quality of our strategy and the capacity of the business to perform even in extremely volatile and competitive market circumstances. Normalised EBITDA grew by 19% to \$66 million with profit after tax growing by 33% to \$29.2 million. The strong financial performance saw the Board increase dividend with a final dividend of 5 cps which when combined with the interim dividend of 4.5 cps delivered a record full year dividend of 9.5 cps.

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It is always of value to review the performance of the traditional legacy businesses of Bega Cheese and Tatura Milk Industries. As we examine more closely the performance of each of the segments we can observe the balance each brings to our overall business.

The Bega Cheese segment of the business with long term contracts and an exposure to the Australian and international retail and food service market continues to be relatively stable.

The slight decrease in financial performance this year was largely attributable to a decrease in returns from whey powder and relative to the market a high NSW milk price.

The performance of Tatura Milk Industries which has a much greater international market and commodity exposure was driven by the long term investment in our nutritionals capacity, the performance of our cream cheese business and a milk price that was more reflective, (although not entirely) of market returns. There is no question that Tatura Milk Industries improved performance was built on the strong growth of our nutritionals platform driven by supply shortages and the success of customers such as Bellamy's particularly in the China market.

SLIDE 9

For the last few years I have attempted to demonstrate the disconnect between the Australian farm gate milk price and global commodity prices. The graph on the screen illustrates the traditional alignment between farm gate milk prices and global markets and the disconnect that began to appear in mid 2014 and has stayed with us up until opening price announcements in June 2016. It is fair to say that in down cycles dairy companies do endeavour to hold price somewhat above the lowest depths of global commodity price in an endeavour to ensure the sustainability of their supply. It is however the case that ultimately it is important to reflect the returns received from the market. As I mentioned earlier the global dairy industry has been in what some analysts describe as a "super down cycle" with the overall price trend being down for the past three years despite some short lived improvements in the market over that time.

While the market has been decreasing competition for milk and overly optimistic milk price forecasts by our largest industry player saw this disconnect widen. Of course each company is affected differently by global commodity prices according to their product mix and markets however we are all ultimately exposed in some way and the fact that is often repeated in many businesses is that nobody can beat the market.

Unfortunately, that fact became true for many Australian dairy farmers late in the 2016 financial year when first Murray Goulburn and then Fonterra announced significant and retrospective price cuts to their suppliers. I have been very vociferous on this subject and I do not intend to add to my commentary on the matter except to say that I am proud and pleased to report that Bega Cheese did not cut its announced price to farmers in the 2016 year.

We kept our undertakings, it is a part of our values, understanding our supply chain from the customer to the dairy farmer and everyone in between and understanding the importance of our undertakings and impacts of our decisions one of is the strengths of this business. It was our strong view that having announced a price and maintaining it for 10 months it was too late in the year for any price adjustment to farmers, the risk had become ours to manage, and a decision to attempt to adjust price so late in the year when farmers would not be in a position to adjust their businesses would be unfair, and unreasonable.

Ladies and gentlemen the company's values made that decision easy, I believe that in the long term maintaining those values, keeping faith with our farmers and honouring commitments will create great value for this company and its shareholders for many years to come.

I have perhaps said enough on this subject over the past few months and it is of course important to focus on the things we need to do to continue to build and grow this business. A price adjustment for our company and our farmers has occurred (as is always the case) at beginning of this financial year, the farm gate milk price is now more reflective of the market albeit that it is a very challenging one for all dairy farmers. Farm gate milk pricing around the world is now generally below the cost of production, consequently we are beginning to see a rebalancing of supply and demand, we are seeing an improvement in global commodity prices with analysts predicting further improvement over the next 12-18 months.

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I do not intend to dwell on this slide for long but it is always important to recognise the quality and product platforms of our business. I believe shareholders are very familiar with our products and our long stated position that we only invest in platforms where we believe we can be globally competitive and at scale.

SLIDE 11

At the centre of all we do must be the customer. We continue to be a demand driven customer focused business. We are very proud of our customer relationships many of which extend for more than a decade and some which are generational. We are proud of our large dairy company customer such as Mondolez, Fonterra and Mead Johnson, our international customers including Ingredia, Lacto Japan and Snow Brand and our relationships with Australian retailers Coles, Woolworths, ALDI.

One of the success stories of 2016 has been our long term customer Bellamy's organic and I congratulate them on their FY2016 performance. It was also pleasing to announce a new partnership with iconic Australian company Blackmores in late 2015.

There has been much activity on the customer front this year with announcements relating to a change in supply arrangement of both Coles and Woolworths retailers mark cheese, a increase in our capacity commitment to Bellamy's and our new nutritional partnership with Blackmores. As is always the case with our business we endeavour to ensure that we are

always competitive, always able to respond to customer requirements and regardless of competitive outcomes maintain high quality relationships with our customers. This has certainly been the case this year as we are managing a transition from Coles to Woolworths, responding to the significant growth from Bellamy's and building our nutritional partnership with Blackmores.

There has been a great deal of interest in the partnership between Bega Cheese and Blackmores. It is a great example of two Australian companies coming together to leverage the strengths of both. The partnership's first products in infant formula and growing up milk powders destined for the Australian and Chinese market. The partnership benefits from the long history and technical knowledge Bega Cheese's wholly owned subsidiary Tatura Milk Industries has in the manufacture of infant formula and nutritional powders and Blackmores' strengths in brand development and record of growth in the China market.

We have great confidence in the value of the combination of the skills and capacities of both companies however there is no doubt that we have seen significant change in the nutritional market since the partnership launched its first products in January.

While this time last year supermarket shelves were empty and customers in Australia and internationally were providing ever increasing orders, the combination of a regulation change in China, a supply response to the demand signals and the evolution of supply channels to market now sees significant discounting in the market place and signs of short term oversupply.

This change in market circumstances has seen our expected sales not materialise at levels that were initially forecast and some strong headwinds for the partnership particularly in the Australian market. The business has taken the view that it is appropriate to take a provision of in the range of \$5-7 million on inventory representing the Bega Cheese's share of the Bemo partnership. The partnership is keeping the business under constant review and will continue to monitor the performance with our partner Blackmores as market evolution and circumstances become clearer.

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One of the strengths of our business is the alignment of our investment in infrastructure with our long term strategy. Bega Cheese's consistent approach to infrastructure investment in our business platforms means that we are well positioned to respond to our customer's needs and focus always on efficiency, capacity and capability.

This year our major projects have included further investment in capacities and efficiencies at our infant canning and blending plant at Derrimut, installation of new cheese shredded and slice capacity at Ridge Street in Bega and investment in information technology with a new enterprise resource planning system. In addition to these investments we have finalised the planning for a new high value whey protein facility to be constructed at Lagoon Street in Bega which will produce specialised proteins for our Bionutrients platform.

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Ladies and Gentlemen before I hand over to Aidan I will perhaps provide some final commentary from a strategic perspective.

The balance that we have created in our business over a great many years allows us to deliver consistent financial performance in a wide range of operating environments. Bega Cheese has always maintained a strong balance sheet believing that the company should always be in a position to respond to business opportunities when they present themselves. These opportunities will inevitably include both organic growth and acquisition. The company balance sheet reflects the stable financial performance and growth of the business. Inventories remain stable, the business has had a strong cash generation year and invested further while also reducing debt.

Ladies and gentlemen a very strong balance sheet positions us well for growth. Increasingly we consider opportunities that extend beyond dairy but are consistent with our competencies in the manufacturing high quality dairy foods and nutritional products.

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Our strategic priorities remain consistent, they are that we;

- Maintain the growth trajectory of the business in all key platforms
- Drive efficiencies through ongoing investment in infrastructure
- Maximise the value of milk components
- Further invest in our brand portfolio
- Continue to build strong long term relationships
- Be responsive to corporate opportunities and
- Build on well established company values

SLIDE 15

As we now focus on 2017 we see that the business environment for dairy companies has changed once again. Analysts are predicting further improvement in global dairy commodity prices, we do now see farm gate milk prices more reflective of market returns but we observe some significant head winds in infant formula and growing up milk powders as the market re-balances and customers are cautious as to the impact of regulation changes in the China market.

From our business perspective we continue to expect further revenue growth particularly from our dairy foods business platform and as a result of predicted continued improvements in global commodity prices. The ongoing growth in dairy foods and the improved outlook for dairy commodities are expected to improve our financial performance in FY2017, however this improvement will be offset by a very challenging business environment for our dairy nutritional platform particularly in infant formula and growing up milk powders. While there are many variables in the industry and for this reason we do not give forecast earnings, we would at this point expect business performance for the FY2017 year from an EBITDA perspective to be broadly in line with FY2016 before the impact of any provisions associated with the Bemore partnership.

As is always the case we will continue to invest in business efficiency and growth projects and remain alert to corporate opportunities in food manufacture, nutritional and Bionutrients.

It will of course remain our endeavour to be the company of choice for Australian dairy farmers and investors.

Ladies and gentlemen I will now, for the last time hand over to our CEO Aidan Coleman for a more in depth analysis of the business performance in the last financial year. I will add some further comments on Aidan's retirement and the leadership transition at the end of Aidan's presentation.

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I would now invite Aidan to the podium to continue the presentation

SLIDE 17

Thank you Barry and good morning ladies and gentlemen. I will continue our presentation with a review of our commercial and operational outcomes for the 2016 financial year.

Although we had largely completed the Milk Sustainability and Growth program in 2015 further minor one-off administrative expenses were incurred early in the 2016 financial year so I will review our activities on a normalised basis for comparisons.

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In the face of continued downward price pressure on global dairy commodities the business was pleased to grow total sales revenue by 7.5% to \$1.196 billion. As a result of revenue growth and improved operating costs we generated a normalised EBITDA of \$66 million, which was an improvement of 18.5% over the prior year. In turn, the profit after tax improved by 32.6% to \$29.2 million. The resilient nature of Bega's overall strategy in the face of broader industry issues saw earnings per share increase to 19.1 cents which was a 32.6% improvement over the prior year EPS of 14.4 cents.

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Normalised net operating cash flow of \$59.6 million was a significant improvement on the \$4.4 million generated in the prior year. We were also able to reduce year end debt by 9.6% to \$53.1 million, reflecting our continuing strong focus on cash flow and balance sheet management.

The improvement in the overall business performance has been generated from our continued focus on revenue growth, aligned to our core strategies, as well as a continuous improvement in manufacturing operational performance.

SLIDE 20

In the 2016 financial year we manufactured a record volume of 238,156 tonnes of various products. This was a 5.9% growth on the prior year. Our ongoing efficiency programs saw energy consumption decrease by 7.9% per tonne across our total production base. We also continued to see our product mix moving more toward value added consumer and food service pack sizes as a result of growth in our infant formula canning and our international food service businesses.

This growth was enabled by our capital investment program which totalled \$34 million in the 2016 financial year. Some of the major capital items included.

- Expansion of nutritional blending and canning capacity at Derrimut, Melbourne. This enabled the facility to operate at 24/7 from August 2015.
- We have installed new production capacity and packaging options at Ridge Street, Bega, for natural cheese shred and slices to meet ongoing growth in these sub categories and to ensure we are best placed to provide innovation in these core cheese formats.
- Bega has commenced an investment program to upgrade its Enterprise Resource Planning System (ERP) to bring the various legacy operations onto a single, current information system in order to simplify the business processes. This is expected to be completed in Calendar year 2017.

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During the year the industry experienced severe upheaval due to some competitors retrospectively decreasing milk prices to farmer producers following a drawn out period of misalignment between Australian manufacturing milk price and global commodity prices.

Bega Cheese Limited did not follow this action as we believe that making such changes so late in the year simply passed hardship to another part of the total supply chain that was least able to adjust at short notice.

Our overall milk supply has continued to expand and despite unfavourable weather conditions over the summer period the company was able to increase its milk intake to 656 million litres, being a 3.8% growth in milk volume over the prior year.

SLIDE 22

Safety is a core value for the company. The cultural awareness related to safety is led by the Board of Directors and has a very high profile within the entire company. Over the past five years the business has been on a journey to continuously improve workplace safety. This has involved a significant investment in both cultural change and capital expenditure. While our ultimate goal is to create a zero injury workplace it is pleasing to note that our Lost Time Injuries decreased by 70% compared to the prior year and our Lost Time Injury Frequency Rate decreased to 3.7.

SLIDE 23

The business operates on four commercial platforms, being Ingredients, Nutritionals, Bionutrients and Dairy Foods. It has been pleasing to note the revenue growth across these business areas in the past year.

Our international food service and consumer business revenue now exceeds \$100 million. Our nutritionals business surpassed \$200 million of sales revenue during the year. While our domestic cheese cut, pack and processing volumes also grew during the year we do expect this growth to drop in the 2018 financial year as domestic retail cheese brand contracts move within the industry. However we remain confident that our service and effectiveness will sustain our leadership in this sector and we are continuing to grow our export base for this business. While our Bionutrients business is in its early development stages it is encouraging to see the development of a global distribution network and the emergence of a broader range of applications for lactoferrin and other micro-proteins. Our focus is on dairy, marine and botanical micro-nutrients and we are steadily building from a small base.

The Bega brand continues to be the market leader in the Australian cheese category with a 15.7% share. The Company continues to develop its own branded products portfolio, primarily driven by activity in Asia and the Middle East as well as domestically. Our brand portfolio includes Bega, Tatura, Dairymont professional and Royal Victoria. Together these brands are now available in more than 40 countries and generate combined sales revenues of approximately \$276 million including Bega cheese in Australia.

SLIDE 24

In speaking of our markets it is important to recognise the support of our customers who collectively enable the business to exist and grow. These include companies such as ALDI, Angliss, Bellamy's, Blackmores, Coles, Fonterra, Ingredia, Kraft/Heinz, Lacto Japan, Mead Johnson, Mondelez and Woolworths. We would like to thank all of these companies and our other customers and partners for their support in the past and into the future.

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In closing I would like to reflect on the journey of Bega Cheese Limited since becoming a public company in August 2011. Our strategy has seen profitable growth. Over the five-year period we have achieved:

- Revenue has grown by \$263 million from \$933 million to \$1,196 million, a CAGR of 6.4%
- Growth in Profit after tax from \$20.4 million to \$29.2 million, a CAGR of 9.3%
- Our EPS has grown from 12.81 cents to 19 cents, a CAGR of 10.5%

We consider these to be a strong reflection of our strategies and capabilities and remain focused on continuing to grow the business.

In closing, I would like to recognise the passion and commitment of all of my colleagues throughout the company. As I am retiring in early 2017 I would like to personally thank our customers, suppliers, investors and colleagues for the wonderful experience that I have had as part of Bega Cheese. Particular thanks to our Directors for their support, insight and commitment to our strategy and direction. I cannot let the opportunity pass without recognising the association I have had with our Executive Chairman, Barry Irvin. It has been a relationship that goes back to 2001 as both a competitor and a colleague. I have appreciated his counsel, forthrightness and commitment to stand up for what is fair and right.

Thank you Barry and thank you everyone here today.

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Barry back to podium

Thanks Aidan, ladies and gentlemen I said in the annual report that Bega Cheese has been fortunate enough to have one of Australasia's leading and most experienced dairy industry executives as CEO for the last 5 years. Aidan has made a great contribution across all facets of our business, growing our customer base, adding capacity and capability to our infrastructure, developing our people and strengthening or relationships with our suppliers. Aidan has been a great steward of the company and his knowledge, experience and skill has been of great value to the business, the Board and myself.

Although Aidan will be with us for a little while yet this is his last AGM and I would therefore like to acknowledge and thank him for his wonderful service and contribution to the company and on a personal level his good counsel and friendship. Aidan even though its back to work for both of us in a few hours I do want to formally thank you and wish you, Jenny and the family all the best for the future, I am sure we will find time for a drink or two over the next few months to celebrate your significant contribution to the company.

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Ladies and Gentlemen that concludes our presentation.

Are there any questions on the presentation?

SLIDE 28

Ladies and Gentlemen, we have now come to the formal part of the meeting.

For each item of business, I will first open the floor for discussion.

If there are any aspects regarding voting that you are uncertain about, please ask one of the Registrars staff.

SLIDE 29

Firstly to item 2 in the notice of meeting. The Remuneration report on pages 24-28 of the annual report outlining the remuneration for the Board, Executive, CEO and other key personnel.

In setting remuneration the Nom and Rem committee refer to market and external advisors.

SLIDE 30

I would inform the meeting that the following proxies have been received in respect to the Remuneration report. I will be casting the undirected proxies in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that the remuneration report for the period ended 30 June 2016 be adopted.

I will now put the motion to the meeting.

All those in favour please raise your yellow voting card.

All those against.

I declare the Motion passed.

SLIDE 31

Election of Directors

Offering themselves for election are Max Roberts and Richard Platts.

Before inviting Richard and Max to make some brief comments on their candidacy I would like to make the following comments. I am delighted that each of Max and Richard have put

themselves forward this year, both have made a significant contribution to the success of Bega Cheese and as always they put the interests of the company in front of their own.

In Max's case he will continue to bring his significant experience, knowledge and network to benefit the business. I will invite Max to comment further on his election in a moment.

I particularly want to make comment on the great contribution that Richard Platts has made to Bega Cheese. As you will have noted from the notice of meeting, while Richard is offering himself for re-election he has recognised the need for succession on the Board and while it is his intention to remain on the Board during the transition of the new CEO into the business Richard has advised that he is prepared to make way for new Director during his next term of office and the Board will commence the process of finding a new independent Director in the near future.

Richard's vision, considered decision making processes and understanding of the opportunities and challenges in the dairy industry have been key to the success of Bega Cheese. His well considered positions and wise counsel have been invaluable to myself and the company. I know that he will continue to make an important contribution to the strategy of Bega Cheese and the appointment of a new CEO. As I said earlier Richard is a wonderful example of somebody who puts the interests of others before his own. In Richards discussions with me he was strong in his belief that the business would benefit from the addition of new skills on the Board.

SLIDE 32

I now move to the election of Max Roberts. Max I invite you to say a few words if you wish.

Before we proceed I would like to inform the meeting we have the following proxies in respect to Max's re-election. I will be casting the undirected proxies in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Max Roberts be re-elected to the Board.

I will now put the motion to the meeting

All those in favour please raise your yellow voting card.

All those against.

Motion passed, congratulations Max.

SLIDE 33

Richard Platts

Richard would you like to say a few words?

The second Director subject to re-election is Richard Platts. Before we proceed I would like to inform the meeting we have the following proxies in respect to Richard's re-election. I will be casting the undirected proxies given to me in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Richard Platts be re-elected to the Board.

I will now put the motion to the meeting

All those in favour please raise your yellow voting card.

All those against

Motion passed, congratulations Richard.

SLIDE 34

Directors Fee Pool Increase

Please refer to item 4 in the Notice of Meeting.

SLIDE 35

I would inform the meeting I have the following proxies in respect to the Directors Fee Pool increase. I will be casting the undirected proxies given to me in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Directors Fee Pool be increased to \$1.2 million.

All those in favour please raise your yellow voting card.

All those against.

I declare the Motion passed.

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Ladies and gentlemen thank you very much for your attendance at this year's AGM.

I now declare the meeting closed.

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Disclaimer