ASX ANNOUNCEMENT

Appendix 4D and Half Year Accounts 2018

I have pleasure in enclosing the Appendix 4D in relation to the Half Year ended 31 December 2017 together with the 2018 Interim Report for the Half Year ended 31 December 2017.

B. G. Kelly

Brett Kelly
Company Secretary

28 February 2018

For further information please contact

Brett Kelly
Company Secretary
Bega Cheese Limited
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Bega Cheese Limited

ASX Half-Year Information - 31 December 2017

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with

the 30 June 2017 Annual Report

Contents

A BEGA CHEESE COMPANY

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4D Item		Percentage		Amount $'000
Revenue from ordinary activities	Up	**13.5%**	To	705,195
Profit from ordinary activities after tax	Up	**31.1%**	To	20,563
Profit from ordinary activities after tax attributable to members	Up	**31.1%**	To	20,563
Net Profit for the period attributable to members	Up	**31.1%**	To	20,563

Net Tangible Assets Backing	31 December 2017	25 December 2016
Net tangible assets backing per share	**$1.19**	$2.03

Dividends / Distributions	Amount per Security cents	Franked Amount per Security cents
Interim Dividend (Prior Year)	5.0	5.0
Final Dividend (Prior Year)	5.0	5.0
Interim Dividend Declared 28 February 2018 (Current Year)	5.5	5.5

Record Date for Determining Entitlements	Date
Interim Dividend	7 March 2018

Reporting periods

For the purposes of this Appendix 4D and Consolidated 2018 Interim Report for the half-year ended 31 December 2017, the following reporting periods have been applied:

- 1H FY2018 refers to the period from 1 July 2017 to 31 December 2017
- 1H FY2017 refers to the period from 1 July 2016 to 25 December 2016 (also referred to as the Prior Period).

The minor difference in the number of trading days between 1H FY2018 and the Prior Period has not had a material difference on the comparative financial performance of the Group in the current reporting period.

Explanation of revenue

Revenue for the Group totalled $705.2 million for 1H FY2018, being an increase of 13.5% on 1H FY2017. Provided below are the key factors impacting revenue in the period:

- acquisition of the Mondelez Grocery Business (Bega Foods) contributing net revenue of $136.6 million from 4 July 2017, compared to nil in the Prior Period
- the Group processed 456 million litres of milk (2017: 347 million litres) in the period, with the majority of the incremental milk being directed to the Tatura processing facility. The increase in total volume was contributed to in part by more favourable seasonal conditions (particularly in Northern Victoria) but also as a result of new dairy farmers commencing supply to the Group
- reduction in own label volume through loss of the Coles contract was in part offset by increased volume of Woolworths (although this customer transition also reduced revenue and margin in 1H FY2018 when compared to the Prior Period)
- sale of infant nutritional canned products reduced in 1H FY2018 compared to the Prior Period with nutritionals stabilising following market correction in FY2017.

Explanation of profit from ordinary activities after tax

The Group generated a statutory profit after tax of $20.6 million, being an increase of 31% over the Prior Period. Before one-off costs totalling ($16.0) million the Group generated normalised profit after tax of $36.6 million, being an increase of 77% over the Prior Period.

Bega Cheese segment

The Bega Cheese segment incurred a statutory loss after tax of ($3.8) million, being a decrease of ($11.9) million from the Prior Period. The main factors contributing to the movement were as follows:

- the Bega Cheese segment incurred a number of material one-off transaction costs relating to the acquisition of Bega Foods and Peanut Company of Australia (PCA) and other corporate activity totalling ($14.7) million before tax in the period. These one-off transaction costs included advisory and due diligence fees, legal fees, stamp duty, land duty and other related activities usual for transactions completed by the Group, a majority of which were not deductible for tax purposes
- the Bega Cheese segment continues to carry the majority of interest bearing debt on behalf of the Group through its centralised treasury function. During the current period the Group incurred a material increase in average net debt as a result of the acquisition of Bega Foods and, to a lesser extent, the acquisition of PCA, together with a build-up of inventory as a result of business acquisitions and strong seasonal production through the Group's dairy businesses. These factors have contributed to an increase in interest expense of ($4.5) million
- in the Prior Period the Bega Cheese segment benefited from contract manufacture volume servicing both Coles and Woolworths own label cheese business, whilst in the current period this volume was limited to the Woolworths business. This decreased in volume and margin for this part of the business
- the Bega Cheese segment includes the activities of the Mondelez Grocery Business with effect from 4 July 2017
- following the acquisition of the Mondelez Grocery Business, Bega Cheese entered into a contract manufacture agreement with H. J. Heinz Company Australia Limited for the supply of chilled cheese products previously sold directly by Mondelez under licence to retail and food service customers, which has reduced ongoing direct sales and margin.

Tatura Milk segment

The Tatura Milk segment generated a statutory profit after tax of $27.0 million, being an increase of $19.4 million from the Prior Period. The main factors contributing to the movement were as follows:

- In the Prior Period Tatura Milk experienced a one-off inventory loss after tax of ($5.0) million as a result of significant volatility in its infant formula business, primarily through its interest in the Bemore Partnership joint operation. Taking into account this one-off item in the Prior Period, the Tatura Milk segment normalised profit after tax has increased by $14.4 million in 1H FY2018
- Tatura Milk's milk intake from suppliers totalled 238 million litres, being an increase of approximately 33%, reflecting more favourable seasonal conditions and additional milk supply compared to the Prior Period. This increase in milk intake increased manufacturing efficiencies and cost effectiveness of the Tatura Milk operations

- Opening milk price for Southern suppliers was $5.50/kg milk solids, with a further milk price increase of $0.13/kg milk solids being announced in the current period, ensuring the suppliers are achieving a competitive price for their milk at this time
- The contribution from core dairy products has materially improved, including primarily cream cheese, high fat and butter, as a result of higher throughput, improved average conversion costs and increased product sales in the current period. The strong performance in these products has been partially offset by lower returns from milk powder products, primarily skim milk powder.

Explanation of net tangible assets backing

Net tangible assets backing of $1.19 per share has decreased from $2.03 in the Prior Period. Total shares on issue has risen from 152,602,945 as at 1 July 2016 to 185,054,790 as at 8 August 2017 after share issues under the Share Purchase Plan and Institutional Placement.

The Group utilised incremental debt facilities to finance the purchase of Bega Foods which significantly increased the net debt of the Group, although this acquisition also included a significant component of intangible assets.

The combination of an increase in shares on issue and increased net debt, together with the fact that a significant component of the Bega Foods assets purchased were intangible has resulted in a decrease in net tangible assets backing per share.

Explanation of dividends

The interim dividend declared for the current period is 5.5 cents per share, being an increase of 10% over the interim dividend of the Prior Period. The interim dividend will be paid on 28 March 2018.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan is not in operation.

Details of subsidiaries, associates and joint venture entities

		Reporting entity's percentage holding	
Name of subsidiary	**Nature of relationship**	**1H FY2018**	**1H FY2017**
Tatura Milk Industries Limited	Subsidiary	100%	100%
Bega Cheese Investments Pty Ltd	Subsidiary	100%	100%
Peanut Company of Australia Limited	Subsidiary	96%	0%
Bemore Partnership	Joint Operation	50%	50%
Capitol Chilled Foods (Australia) Pty Limited	Joint Venture	25%	25%

Bemore partnership

Bega Cheese Investments Pty Ltd is a wholly owned subsidiary of Bega Cheese Limited. With effect from 6 January 2016 this entity has held the Group's 50% interest in the Bemore joint arrangement with Blackmores Limited (Bemore). Blackmores and Bega Cheese have mutually agreed to wind-up the partnership, with the intention to complete this process prior to 30 June 2018.

Mondelez Grocery Business (Bega Foods)

On 4 July 2017 Bega Cheese announced that it had completed the acquisition of most of Mondelez International's Australia and New Zealand grocery and cheese business (Mondelez Grocery Business) and with it Vegemite, one of Australia's most iconic brands. Following the acquisition, the activities of the Mondelez Grocery Business were applied in forming a new division, operating within the Bega Cheese Limited entity, called Bega Foods.

Peanut Company of Australia (PCA)

On 11 November 2017, Bega Cheese announced an unconditional takeover offer for all of the shares in Peanut Company of Australia Limited (PCA) and the signing of a placement agreement and bid implementation agreement with PCA. As at 31 December 2017, Bega had acquired 96% of the issued shares in PCA. Bega Cheese completed the compulsory acquisition of the remaining shares on 25 January 2018. Under the placement agreement, Bega Cheese subscribed for 19.99% of the issued shares of PCA for $1.9 million. Under the bid implementation agreement, the remaining shares were acquired for $10.0 million.

On 11 December 2017, Bega Cheese held 53% of the issued share capital and voting rights of PCA, increasing to 96% of the issued shares of PCA as at 31 December 2017. The impact on comprehensive income for the 20 days of control from 11 to 31 December 2017 was insignificant due to a seasonal shutdown and minimal volume processed and sold by PCA in this period. The acquisition of PCA will help increase the supply of Australian grown peanuts for the manufacture of peanut butter at Bega's Port Melbourne facility and to continue to service other PCA customers.

Further information

For further information, please refer to the 2017 Annual Report and the Consolidated 2018 Interim Report attached to this statement.

Bega Cheese Limited

Consolidated 2018 Interim Report for the

Half-Year Ended 31 December 2017

ABN 81 008 358 503

Contents

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Bega Cheese Group or Group) consisting of Bega Cheese Limited (Bega Cheese or the Company) and the entities it controlled at the end of or during the period ended 31 December 2017.

Directors

The following persons held office as Directors during the whole of the period ended 31 December 2017 and up to the date of this report:

Barry Irvin
Executive Chairman
Director since September 1989

Peter Margin
Chair of the Nomination, Remuneration and Human Resources Committee
Independent Director since June 2011

Jeff Odgers
Chair of the Milk Services Committee
Director since December 2011

Max Roberts
Director since September 1983

Richard Cross
Director since December 2011

Raelene Murphy
Chair of the Audit & Risk Committee
Independent Director since June 2015

Richard Parbery
Director since September 1988

Richard Platts resigned as a Director on 4 September 2017.

Terry O'Brien was appointed to the Board on 15 September 2017 as an Independent Director.

Reporting entity and period

This interim report covers the operations of the Bega Cheese Group, including:

- the wholly owned subsidiary Tatura Milk Industries Limited (Tatura Milk)
- the Group's 50% interest in the Bemore partnership with Blackmores Limited
- Bega Cheese's ownership of the newly created Bega Foods business resulting from the acquisition of the Mondelez Grocery Business on 4 July 2017
- Bega Cheese's 96% controlling interest in Peanut Company of Australia (PCA), (with Bega Cheese compulsorily acquiring the remaining 4% on 25 January 2018).

For the purposes of this Consolidated 2018 Interim Report for the half-year ended 31 December 2017, the following reporting periods have been applied in assessing the financial performance of the Group:

- 1H FY2018 refers to the period from 1 July 2017 to 31 December 2017
- 1H FY2017 refers to the period from 1 July 2016 to 25 December 2016 (also referred to as the Prior Period).

The minor difference in the number of trading days between 1H FY2018 and the Prior Period has not had a material difference on the comparative financial performance of the Group in the current reporting period.

For purposes of the Consolidated Balance Sheet, two prior comparisons have been provided, being:

1. 30 June 2017, as reflecting the financial position at the end of the last statutory full year reporting period; and

2. 25 December 2016, which demonstrates the financial position at the end of the previous statutory half-year reporting period, being the more relevant prior period financial position given the seasonal nature of the Group's milk intake and processing activities. The difference in the balance sheet date for 1H FY2018 compared to 1H FY2017 does not have a material impact on the comparative financial position of the Group.

Review of operations

The principal activity of the Group during 1H FY2018 continued to be receiving, processing, manufacturing and distributing dairy and associated products. Through the acquisition and formation of Bega Foods in 1H FY2018, this also includes the manufacture and packing of branded food products including *Vegemite,* peanut butter, ambient cheese products, *ZoOSh* salad dressings and other food products.

1H FY2018 highlights

The first half of FY2018 saw the Group achieve the following:

- generated half-year normalised operating profit after tax of $36.6 million, being a record first half result for the Group
- on 4 July 2017 the Group acquired the Bega Foods business and immediately set about embedding this business within the Group and on 11 December 2017 Bega Cheese secured control of PCA
- generated revenue of $705.2 million, being an increase of 13.5% on the Prior Period through the acquisition of Bega Foods, strong sales volumes through dairy ingredient products and increased volume through our retail and branded food service channels
- completed capital expenditure programs in natural cheese slices, shredded cheese and cream cheese providing additional capacity and cost of conversion benefits
- developed integrated systems for the Bega Foods business by aligning our new Enterprise Resource Planning (ERP) system to support this business
- continued focus on manufacturing costs as volumes increased with the addition of Woolworths own label cheese business and other contract manufacturing customers maintaining sound utilisation of cheese cutting, packing and processing assets
- on 28 February 2018 Bega Cheese declared a fully franked interim dividend of 5.5 cents per share, payable on 28 March 2018.

Earnings performance review 1H FY2018

Group result 1H FY2018

The Group generated earnings before interest, tax, depreciation and amortisation (EBITDA) of $51.7 million, compared to $35.5 million in 1H FY2017, being an increase of 46%. As in prior years, the result for 1H FY2018 is not expected to reflect the proportional full year result of the Group as it is influenced by seasonal factors.

The remainder of this earnings performance review for 1H FY2018 will focus on the normalised result, consistent with prior years.

The Group generated normalised EBITDA of $70.1 million, compared to $42.6 million in 1H FY2017, being an increase of 65%. The table below demonstrates the movement between the financial performance for statutory reporting purposes and the normalised financial performance for the Group.

Normalised result for the Group

Consolidated	**Per Financial Statements** $'000	**Inventory Losses** $'000	**Bega Foods Acquisition Costs** $'000	**Bega Foods Fair Value Adjustments** $'000	**PCA Acquisition Costs** $'000	**Other Costs** $'000	**Normalised outcome** $'000
Period ending 31 December 2017							
Revenue	705,195	-	-	-	-	-	705,195
Cost of sales	(571,541)	-	-	3,733	-	-	(567,808)
Gross profit	**133,654**	**-**	**-**	**3,733**	**-**	**-**	**137,387**
EBITDA	51,698	-	11,659	3,733	2,061	935	70,086
Depreciation, amortisation and impairment	(13,636)	-	-	-	-	-	(13,636)
EBIT	38,062	-	11,659	3,733	2,061	935	56,450
Net finance costs	(3,890)	-	-	-	-	-	(3,890)
Profit before income tax	**34,172**	**-**	**11,659**	**3,733**	**2,061**	**935**	**52,560**
Income tax expense	(13,609)	-	(868)	(1,120)	(99)	(280)	(15,976)
Profit for the period	**20,563**	**-**	**10,791**	**2,613**	**1,962**	**655**	**36,584**
Gross margin - percentage	**19%**						**19%**
Basic earnings per share - cents	**11.2**						**20.0**
Period ending 25 December 2016							
Revenue	621,131	-	-	-	-	-	621,131
Cost of sales	(556,077)	7,100	-	-	-	-	(548,977)
Gross profit	**65,054**	**7,100**	**-**	**-**	**-**	**-**	**72,154**
EBITDA	35,496	7,100	-	-	-	-	42,596
Depreciation, amortisation and impairment	(12,548)	-	-	-	-	-	(12,548)
EBIT	22,948	7,100	-	-	-	-	30,048
Net finance costs	(1,414)	-	-	-	-	-	(1,414)
Profit before income tax	**21,534**	**7,100**	**-**	**-**	**-**	**-**	**28,634**
Income tax expense	(5,845)	(2,130)	-	-	-	-	(7,975)
Profit for the period	**15,689**	**4,970**	**-**	**-**	**-**	**-**	**20,659**
Gross margin - percentage	**10%**						**12%**
Basic earnings per share - cents	**10.3**						**13.5**

Bega Foods Acquisition Costs include stamp duty payable on the acquisition of Bega Foods and other associated one-off transaction costs.

Bega Foods Fair Value Adjustment represents the fair value uplift applied to inventory purchases on acquisition of the business in line with AASB 3. As the inventory was uplifted to fair value on the opening balance sheet, the gross margin on sale of this inventory during the 6 months ended 31 December 2017 was lower than would ordinarily have been achieved by Bega Foods on an ongoing basis and has therefore been treated as a normalising adjustment.

PCA Acquisition Costs include state based duties payable and other one-off costs to acquire the PCA business.

Other one-off costs include costs in reviewing other acquisition opportunities through the period.

Inventory Losses in 1H FY2017 relate to an NRV adjustment to infant and nutritionals finished goods and raw materials inventory.

Overview of segment normalised performance

Overview of segment structure

As a result of the recent acquisitions, the Directors are currently reviewing the overall structure of business activities which may result in changes to how activities are reported to the Chief Operating Decision Maker in future. Any changes made may have a corresponding impact on segment results reported in the financial statements.

Bega Cheese

The Bega Cheese segment has incurred significant one-off Bega Foods Acquisition Costs, PCA Acquisition Costs and Other costs incurred in reviewing other acquisition opportunities in 1H FY2018. These one-off costs as described in the table on page 8 have had a material adverse impact on the statutory reported profit for this segment in the current period.

The Bega Cheese segment generated normalised profit after tax (PAT) of $9.6 million, compared to PAT of $8.1 million in 1H FY2017, being an increase of 19%.

Key items relevant to the Bega Cheese segment for the period were as follows:

- revenue totalled $497.3 million in 1H FY2018, being an increase of 22%, driven largely by the acquisition of the Bega Foods business
- transition of own label cheese contracts, which occurred from 2H FY2017 decreased revenue and also impacted margin returns for the business
- branded export growth strategy delivering increased volumes compared to the Prior Period, primarily across South East and North Asia in mozzarella and cream cheese
- milk intake from suppliers increased by 17% across the two Bega Cheese manufacturing sites to 191 million litres
- continuation of cost efficiency programs, which has reduced direct and indirect labour costs and improved yield whilst reducing wastage
- information technology transitional costs and increased promotional spend to support brand transition, including the 'Bega' brand onto peanut butter and other ambient products
- increased interest costs and legal and consulting fees over the Prior Period as a result of significant acquisitions and other corporate activity and profit improvement program implementation costs.

Tatura Milk

The Tatura Milk segment did not include any material one-off income or expenses in 1H FY2018, and as a result the normalised financial performance of Tatura Milk is in line with the statutory result.

The Tatura Milk segment generated normalised PAT of $27.0 million, compared to $12.5 million in 1H FY2017, being an increase of 116%.

Key items relevant to the Tatura Milk segment for the period were as follows:

- milk intake from suppliers increased by 33% to 238 million litres reflecting more favourable spring conditions experienced in Northern Victoria and additional supply
- production of dairy related finished goods at Tatura Milk was up 38%, ensuring plant utilisation and favourable overhead recoveries
- favourable sales through its dairy ingredients business, with the price of value added dairy products increasing compared to the Prior Period
- ongoing demand for milk fat related products and increased capacity through cream cheese delivered strong domestic and international sales and improved overhead and yield recoveries
- infant formula in finished canned format decreased from the Prior Period, although future indicators are showing signs of recovery and the business is positioning itself for increasing demand
- opened with a milk price to Southern suppliers of $5.50/kg milk solids and provided an increase of $0.13/kg milk solids during the first half of the financial year.

Cash flows

The Group statutory net cash outflow from operating activities was ($5.4) million in 1H FY2018, compared to net cash inflow of $9.0 million in 1H FY2017.

Net working capital was $258.1 million at 31 December 2017, being an increase of $91.0 million from 30 June 2017 and $61.2 million from 25 December 2016. The main factors contributing to the increase were the acquisition of Bega Foods and PCA and an increase in stock as a result of increased milk intake.

Net debt totalled $273.4 million at the end of 1H FY2018, being an increase of $533.6 million from the substantial net cash position of the Group at 30 June 2017. This increase in net debt was largely the result of:

- the Mondelez Grocery Business acquisition on 4 July 2017 amounting to a payment of $452.7 million for this business, partially offset by net proceeds from the issues of shares raising $50.0 million
- tax paid on the sale of assets to Mead Johnson amounting to $53.4 million
- the payment of $11.4 million for the acquisition of PCA and resulting assumption of $31.0 million into Group debt on consolidation.

Capital investment during 1H FY2018

Bega Cheese Group capital expenditure in 1H FY2018 totalled $7.5 million (1H FY2017: $15.4 million). The Group also continued to invest in the development of a new enterprise resource planning system in 1H FY2018, totalling $8.1 million (1H FY2017: $6.7 million).

In addition to ongoing preventative capital works, the capital program focussed on cost reduction and efficiency upgrades. The Group has commenced or completed the following capital expenditure initiatives in 1H FY2018:

- cream storage and cooling upgrade to modernise infrastructure and improve yield and development of cream cheese capacity upgrade roadmap to support future growth
- investigation into lactoferrin encapsulation capability for the manufacture of Inferrin at Tatura
- bio generation pilot plant to explore ways to improve waste water treatment and produce alternative energy at the Port Melbourne facility
- boiler upgrade to reduce environmental emissions and improve efficiency and salty whey processing capability upgrade to improve solids yield at Lagoon Street, Bega.

Net debt and debt facilities

Bega Cheese Group had $494.5 million in available facilities as at 31 December 2017. The Group's net debt as at 31 December 2017 was $273.4 million, well within the available facility limits.

Milk supply

The Group attracted new milk suppliers to accommodate the increased demand in ingredients products in 1H FY2018. Milk volumes across the Group totalled 429 million litres, which was up 25% on the prior period with new suppliers joining the Group and organic growth through existing suppliers.

Strategic outlook

The Group continues to invest in its key strategic platforms and information systems with a focus on long-term sustainable growth and shareholder returns. The acquisition of Bega Foods and Peanut Company of Australia is consistent with the Group's strategy of diversifying earnings streams away from commodity markets into higher margin consumer goods. The return of Vegemite to Australian ownership demonstrates our passion to become the Great Australian Food Company.

Bega continues to deliver growth in higher value dairy ingredients, through investment in capacity and a strong focus on customer value. Investment in our core business platforms continues to drive margin benefit to the business, which supports competitive milk prices for our valued suppliers.

Subsequent events

Extraordinary General Meeting

On 5 January 2018 Bega Cheese held an Extraordinary General Meeting to consider the issue of shares under the June 2017 Institutional Placement. At the EGM shareholders approved the previous issue in June 2017 of 22,890,441 ordinary shares in the Company at $5.35 per share under the Institutional Placement including for the purposes of ASX Listing Rule 7.4.

Peanut Company of Australia (PCA)

On 25 January 2018 Bega Cheese advised PCA that it had compulsorily acquired the remaining shares in the company in accordance with section 661A of the *Corporations Act 2001* and owned 100% of PCA from that date.

On 12 February 2018 Bega Cheese paid out the existing debt facility owed by PCA to NAB and incorporated the cash flow and debt financing requirements for PCA under the Bega Cheese Group Syndicated Debt Facility, utilising part of the undrawn balance of this facility.

Dividend

On 28 February 2018, the Directors declared an interim fully franked dividend of 5.5 cents per share, which represents a distribution of $10.2 million. An interim dividend of 5.0 cents per share was paid in respect of 1H FY2017.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 13.

Rounding of amounts

The Group is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

Barry Irvin
Executive Chairman
Melbourne

Raelene Murphy
Independent Director
Melbourne

28 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Bega Cheese Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bega Cheese Limited and the entities it controlled during the period.

P.J. Carney

Paddy Carney
Partner

Sydney
28 February 2018

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		CONSOLIDATED	
		31 December 2017	25 December 2016
	Notes	$'000	$'000
Revenue		705,195	621,131
Cost of sales		(571,541)	(556,077)
Gross profit		**133,654**	**65,054**
Other revenue		3,435	3,103
Other income		1,030	399
Distribution expense		(33,832)	(25,915)
Marketing expense		(18,869)	(5,796)
Occupancy expense		(2,232)	(1,609)
Administration expense		(31,291)	(12,734)
Transaction costs relating to Bega Foods acquisition	7a	(11,659)	-
Transaction costs relating to PCA acquisition	7b	(2,061)	-
Finance costs		(4,398)	(1,511)
Share of net profit of joint venture		395	543
Profit before income tax		**34,172**	**21,534**
Income tax expense		(13,609)	(5,845)
Profit for the period attributable to owners of Bega Cheese Limited		**20,563**	**15,689**
Other comprehensive (expense)/income:			
Items that may be reclassified to profit or loss			
Cash flow hedges		(340)	(1,095)
Change in the fair value of other financial assets		406	217
Total other comprehensive income/(expense)		**66**	**(878)**
Total comprehensive income for the period attributable to owners of Bega Cheese Limited		**20,629**	**14,811**

	2018 Cents	2017 Cents
Earnings per share for profit attributable to ordinary equity holders of the parent:		
Basic earnings per share	11.2	10.3
Diluted earnings per share	11.2	10.3

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED 31 December 2017 $'000	30 June 2017 $'000	25 December 2016 $'000
ASSETS				
Current assets				
Cash and cash equivalents		18,682	475,533	14,508
Trade and other receivables		215,512	168,536	160,502
Derivative financial instruments	6	533	1,546	1,323
Inventories		272,500	167,898	194,331
Current tax assets		12,518	4,959	-
Total current assets		**519,745**	**818,472**	**370,664**
Non-current assets				
Other financial assets	6	1,459	879	1,039
Property, plant and equipment		307,539	196,799	222,702
Deferred tax assets		7,097	16,172	11,059
Intangible assets		413,252	22,650	14,625
Other receivables		34	-	-
Investments accounted for using the equity method		1,307	1,288	1,226
Total non-current assets		**730,688**	**237,788**	**250,651**
Total assets		**1,250,433**	**1,056,260**	**621,315**
LIABILITIES				
Current liabilities				
Trade and other payables		229,895	169,324	157,911
Derivative financial instruments	6	323	408	3,060
Borrowings	4	28,428	64	24,139
Current tax liabilities		14,268	63,911	6,343
Provisions		41,766	32,877	31,945
Total current liabilities		**314,680**	**266,584**	**223,398**
Non-current liabilities				
Borrowings	4	263,670	215,280	61,000
Provisions		1,802	1,722	1,898
Deferred tax liabilities		35,981	-	-
Total non-current liabilities		**301,453**	**217,002**	**62,898**
Total liabilities		**616,133**	**483,586**	**286,296**
Net assets		**634,300**	**572,674**	**335,019**
EQUITY				
Share capital	5a	274,851	224,692	103,942
Reserves		21,813	21,656	20,180
Retained earnings		337,636	326,326	210,897
Capital and reserves attributable to owners of Bega Cheese Limited		**634,300**	**572,674**	**335,019**
Total equity		**634,300**	**572,674**	**335,019**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes. The Balance Sheet as at 25 December 2016 has been included to better reflect the impact of business seasonality on the financial position at the half-year.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Share capital $'000	Share-based payment reserve $'000	Capital profits reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Transactions with non-controlling interests $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2016	103,942	94	33,959	(244)	(184)	(12,567)	202,838	327,838
Profit for the period	-	-	-	-	-	-	15,689	15,689
Other comprehensive income/(expense) for the period	-	-	-	(1,095)	217	-	-	(878)
Transactions with owners in their capacity as owners:								
- Dividends provided for or paid	-	-	-	-	-	-	(7,630)	(7,630)
Balance as at 25 December 2016	**103,942**	**94**	**33,959**	**(1,339)**	**33**	**(12,567)**	**210,897**	**335,019**
Profit for the period	-	-	-	-	-	-	123,059	123,059
Other comprehensive income/(expense) for the period	-	-	-	1,471	(112)	-	-	1,359
Transactions with owners in their capacity as owners:								
- Share-based payments relating to incentives	-	117	-	-	-	-	-	117
- Issue of shares, net of transaction costs and tax (note 5)	120,750	-	-	-	-	-	-	120,750
- Dividends provided for or paid	-	-	-	-	-	-	(7,630)	(7,630)
Balance as at 30 June 2017	**224,692**	**211**	**33,959**	**132**	**(79)**	**(12,567)**	**326,326**	**572,674**
Profit for the period	-	-	-	-	-	-	20,563	20,563
Other comprehensive income/(expense) for the period	-	-	-	(340)	406	-	-	66
Transactions with owners in their capacity as owners:								
- Share-based payments relating to incentives	-	91	-	-	-	-	-	91
- Issue of shares, net of transaction costs and tax (note 5)	50,159	-	-	-	-	-	-	50,159
- Dividends provided for or paid	-	-	-	-	-	-	(9,253)	(9,253)
Balance as at 31 December 2017	**274,851**	**302**	**33,959**	**(208)**	**327**	**(12,567)**	**337,636**	**634,300**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

		CONSOLIDATED	
		31 December 2017	25 December 2016
	Notes	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers inclusive of goods and services tax		708,997	640,986
Payments to suppliers and employees inclusive of goods and services tax		(695,013)	(625,103)
Interest and other costs of financing paid		(4,043)	(1,511)
Income taxes paid		(15,372)	(5,381)
Net cash (outflow)/inflow from operating activities		**(5,431)**	**8,991**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		508	97
Dividend received		15	10
Tax paid on sale of plant and equipment		(53,438)	-
Payments for property, plant and equipment		(9,802)	(14,374)
Payments for intangible assets		(10,706)	(5,502)
Payment for acquisition of Bega Foods	7a	(452,726)	-
Payment for acquisition of PCA, net of cash acquired	7b	(11,267)	-
Proceeds from sale of property, plant and equipment		1	41
Joint venture partnership distributions received		375	813
Net cash (outflow) from investing activities		**(537,040)**	**(18,915)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		47,861	22,500
Repayment of borrowings		(2,948)	(96)
Net proceeds from issue of shares	1b	49,960	-
Dividends paid to members		(9,253)	(7,630)
Net cash inflow from financing activities		**85,620**	**14,774**
Net (decrease)/increase in cash and cash equivalents		(456,851)	4,850
Cash and cash equivalents at the beginning of the period		475,533	9,658
Cash and cash equivalents at the end of the period		**18,682**	**14,508**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT EVENTS IN THE ACCOUNTING PERIOD

a) Bega Foods Acquisition

On 4 July 2017 Bega Cheese announced that it had completed the acquisition of most of Mondelez International's Australia and New Zealand grocery and cheese business (Mondelez Grocery Business) which included the iconic Vegemite brand. The Mondelez Grocery Business, now called Bega Foods, operates within the Bega Cheese Limited entity.

b) Share Purchase Plan

A Share Purchase Plan Offer (SPP Offer) was opened on 3 July 2017 and closed on 31 July 2017. Under the SPP, each eligible Bega Cheese shareholder was able to subscribe for up to $15,000 of new Bega Cheese shares, without incurring brokerage or transaction costs. The SPP Offer raised $50.2 million and resulted in an additional 9,561,404 ordinary fully paid shares being issued.

c) Peanut Company of Australia Ltd (PCA)

On 11 November 2017, Bega Cheese Limited (Bega Cheese) announced an unconditional takeover offer for all of the shares in Peanut Company of Australia Limited (PCA) and the signing of a placement agreement and bid implementation agreement with PCA. As at 31 December 2017, Bega Cheese had acquired 96% of the issued shares in PCA. Bega Cheese completed the compulsory acquisition of the remaining shares on 25 January 2018.

Under the placement agreement, Bega Cheese subscribed for 19.99% of the issued shares of PCA for $1.9 million. Under the bid implementation agreement, the remaining shares were acquired for $10.0 million.

On 11 December 2017, Bega Cheese held 53% of the issued share capital and voting rights of PCA and controlled 96% of the issued shares of PCA as at 31 December 2017. The impact on comprehensive income for the 20 days of control from 11 to 31 December 2017 was insignificant due to a seasonal shutdown and minimal volume processed and sold by PCA in this period. If PCA had been acquired on 1 July 2017 the contribution at EBITDA would have been insignificant to the Group.

PCA is located in Kingaroy, Queensland and has been Australia's leading supplier of locally grown peanuts to domestic and export customers for over 90 years. PCA is also highly regarded for its peanut research and development program. The acquisition of PCA will help grow the supply of Australian grown peanuts for the manufacture of peanut butter at Bega Cheese's Port Melbourne facility and to continue to service other PCA customers.

d) Murray Goulburn

During 1H FY2018 Murray Goulburn Cooperative Co Limited (Murray Goulburn) conducted a highly publicised review, including of its ownership structure. Bega Cheese expressed an interest in this process and engaged actively in a detailed review of the Murray Goulburn business as an acquisition opportunity. Bega Cheese incurred a number of one-off advisory, legal and due diligence costs in undertaking its review.

Bega Cheese's proposal to acquire Murray Goulburn was ultimately not accepted and on 27 October 2017, Murray Goulburn announced that it had entered into a binding agreement with Saputo Dairy Australia Pty Ltd.

e) Kraft Legal Action

In July 2017 Bega Cheese completed the acquisition of the Mondelez Grocery Business. This acquisition included Vegemite and peanut butter, the associated intellectual property rights and the manufacturing facility at Port Melbourne at which those products have been made for many years. An entity in the Kraft Heinz group (Kraft Heinz) commenced proceedings in the United States District Court Southern District of New York seeking to compel Bega Cheese to participate in mediation and arbitration under a Master Ownership and License Agreement Regarding Trademarks and Related Intellectual Property dated 27 September 2012 in relation to the assertion by Kraft Heinz that it owns trade dress rights in the packaging on the peanut butter products included in the business acquired by Bega Cheese from Mondelez.

Kraft Heinz has also commenced proceedings in the Federal Court of Australia alleging that Bega Cheese Group engaged in misleading and deceptive conduct in connection with certain advertisements relating to Bega Cheese Group's peanut butter products. The Group denies the misleading and deceptive conduct alleged by Kraft Heinz and has lodged a cross claim alleging misleading and deceptive conduct by Kraft Heinz arising from a press release that announces Kraft Heinz's intention to launch its own peanut butter product.

The Group is confident of its rights in the peanut butter packaging trade dress and will vigorously enforce those rights.

f) Fonterra Legal Action

In 2001 Bega Cheese granted Fonterra an exclusive licence to use the Bega trade marks in Australia on natural cheddar cheese, processed cheddar cheese, string cheese and butter (Licensed Products). Fonterra has commenced legal proceedings in the Supreme Court of Victoria seeking orders including declarations that Bega Cheese cannot use the Bega trade marks in Australia on products outside of the Licensed Products without Fonterra's consent as well as damages. Bega Cheese as owner of the trade marks will vigorously oppose Fonterra's position and defend its rights to use its trade marks in Australia.

Bega Cheese has received detailed legal advice. Bega Cheese does not expect that the two matters above, which are both before the courts, will have a material impact on the financial performance or position of the Group.

g) Effective Tax Rate

The effective tax rate for the period is 39.8%, which is abnormally high as a result of a significant amount of non-deductible expenses in the period. These expenses are primarily stamp duty, landholder duty and legal costs relating to the acquisitions of Bega Foods and PCA which are one-off in nature.

2. SEASONAL FACTORS

The Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2017 is not expected to reflect the proportional full year result of the Group due to seasonal factors and other matters addressed throughout this report.

3. SEGMENT INFORMATION

a) Description of segments

The Group determines the reporting segments based on financial and other management reports reviewed by the Board of Directors, in its capacity as the Chief Operating Decision Maker. The Group has two reporting segments:

i. Bega Cheese – manufactures, packages and sells natural cheese, processed cheese, powders, butter and branded food products.

ii. Tatura Milk – manufactures, packages and sells cream cheese, commodity powders, butter and nutritional powders.

As a result of the recent acquisitions, the Directors are currently reviewing the overall structure of business activities which may result in changes to how activities are reported to the Chief Operating Decision Maker in future. Any changes made may have a corresponding impact on segment results reported in the financial statements.

b) Segment information provided to the Board of Directors

	Bega Cheese $'000	Tatura Milk $'000	Consolidation Adjustments $'000	Group Total $'000
Period ending 31 December 2017				
Revenue	497,306	233,294	(25,405)	705,195
EBITDA	17,164	38,267	(3,733)	51,698
Depreciation, amortisation and impairment	(9,465)	(4,171)	-	(13,636)
EBIT	7,699	34,096	(3,733)	38,062
Interest revenue	161	1,515	(1,168)	508
Interest expense	(5,530)	(36)	1,168	(4,398)
Profit/(loss) before income tax	**2,330**	**35,575**	**(3,733)**	**34,172**
Income tax expense	(6,129)	(8,600)	1,120	(13,609)
Profit/(loss) for the period	**(3,799)**	**26,975**	**(2,613)**	**20,563**
Impact of current period events on profit before income tax				
Transaction costs relating to Bega Foods acquisition	(11,659)	-	-	(11,659)
Bega Foods fair value adjustments	-	-	(3,733)	(3,733)
Transaction costs relating to PCA acquisition	(2,061)	-	-	(2,061)
Other	(935)	-	-	(935)

	Bega Cheese $'000	Tatura Milk $'000	Consolidation Adjustments $'000	Group Total $'000
Period ending 25 December 2016				
Revenue	406,111	232,543	(17,523)	621,131
EBITDA	19,213	16,283	-	35,496
Depreciation, amortisation and impairment	(7,221)	(5,327)	-	(12,548)
EBIT	11,992	10,956	-	22,948
Interest revenue	42	55	-	97
Interest expense	(1,033)	(478)	-	(1,511)
Profit before income tax	**11,001**	**10,533**	**-**	**21,534**
Income tax expense	(2,869)	(2,976)	-	(5,845)
Profit for the period	**8,132**	**7,557**	**-**	**15,689**
Impact of current period events on profit before income tax				
Inventory losses	-	(7,100)	-	(7,100)
Total segment assets and liabilities				
Total segment assets 31 December 2017	1,108,631	419,167	(277,365)	1,250,433
Total segment assets 30 June 2017	930,083	434,844	(308,667)	1,056,260
Total segment assets 25 December 2016	445,033	264,112	(87,830)	621,315
Total segment liabilities 31 December 2017	715,805	86,257	(185,929)	616,133
Total segment liabilities 30 June 2017	586,781	128,533	(231,728)	483,586
Total segment liabilities 25 December 2016	200,692	95,805	(10,201)	286,296

For further details of the current period events please refer to the table and explanation in the Directors report on page 8.

c) Other segment information

i. Segment revenue

Sales between segments are carried out at arm's length and eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Consolidated Statement of Comprehensive Income.

ii. EBITDA

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

iii. Segment assets and liabilities

The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. These liabilities are allocated based on the operations of the segment. The eliminations relate to inter-segment debtors and creditors arising in the ordinary course of business.

4. BORROWINGS

Bega Cheese Group had $494.5 million in available facilities as at 31 December 2017, as set out below:

	CONSOLIDATED		
	31 December 2017	**30 June 2017**	**25 December 2016**
	$'000	$'000	$'000
Undrawn facilities expiring within one year	86,498	76,436	51,000
Undrawn facilities expiring beyond one year	116,500	169,500	26,861
Drawn facilities	291,492	217,064	85,139
Total facilities	**494,490**	**463,000**	**163,000**
Total facilities are represented by:			
Syndicated Facilities - Non-current	380,000	380,000	80,000
Inventory Facility	75,000	75,000	75,000
Overdraft Facility	6,500	6,500	6,500
Vat Financing Facility	1,500	1,500	1,500
Seasonal Multi-Option/Term Facility	31,490	-	-
Total facilities	**494,490**	**463,000**	**163,000**

The Syndicated Facilities Non-current included:

- a Cash Advance Facility of $70.0 million maturing 31 January 2019
- a Cash Advance Facility of $200.0 million maturing 30 June 2019
- a Term Debt Facility of $100.0 million maturing 28 June 2020
- a Cash Advance Facility of $10.0 million maturing 31 January 2021.

Through the acquisition of Peanut Company of Australia, the Group also assumed $31.5 million in PCA-related current debt facilities as at 31 December 2017 including:

- a Seasonal Multi-Option Facility of $15.0 million maturing 30 June 2018
- a Term Debt Facility of $16.5 million maturing 30 June 2018.

These PCA-related debt facilities were paid out subsequent to 31 December 2017 utilising part of the Group's undrawn Syndicated Facilities.

Under the terms of the current Syndicated Facilities, the Group is required to comply with the following covenants:

- the leverage ratio must not be greater than 4.50 times at 31 December 2017, stepping down to 4.25 times at 31 March 2018, then stepping down to 3.50 times from 30 June 2018 through to 31 March 2019, before stepping down to 3.00 times from 30 June 2019
- the interest cover ratio must be equal or greater than 2.50 times; and
- shareholder funds must be equal or greater than $250 million.

5. SHARE CAPITAL

a) Share capital

	CONSOLIDATED		
	31 December 2017	**30 June 2017**	**25 December 2016**
	$'000	$'000	$'000
Share capital - ordinary shares fully paid	**274,851**	**224,692**	**103,942**

b) Movement in number of shares and share capital value

	Ordinary Shares Number '000	**Ordinary Shares** $'000
Ordinary shares on issue at 1 July 2016 and 25 December 2016	152,603	103,942
Shares issued under Institutional Placement	22,890	122,464
Share issue transaction costs, net of tax	-	(1,714)
Ordinary shares on issue at 30 June 2017	175,493	224,692
Ordinary shares on issue at 1 July 2017	175,493	224,692
Shares issued under Share Purchase Plan (note 1b)	9,561	50,199
Share issue transaction costs, net of tax (note 1b)	-	(40)
Ordinary shares on issue at 31 December 2017	185,054	274,851

6. FINANCIAL RISK MANAGEMENT

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. Refer to the 2017 Annual Report for details on the basis of AASB 7 Financial Instruments disclosure of fair value measurements.

The following table presents the Group's assets and liabilities measured and recognised at fair value at the end of the reporting periods:

Consolidated	Level 1 $'000	Level 2 $'000	Total $'000
Period ending 31 December 2017			
Assets			
Derivatives used for hedging	-	533	533
Financial assets at fair value through equity	1,459	-	1,459
Total assets	**1,459**	**533**	**1,992**
Liabilities			
Derivatives used for hedging	-	(323)	(323)
Total liabilities	**-**	**(323)**	**(323)**
Period ending 30 June 2017			
Assets			
Derivatives used for hedging	-	1,546	1,546
Financial assets at fair value through equity	879	-	879
Total assets	**879**	**1,546**	**2,425**
Liabilities			
Derivatives used for hedging	-	(408)	(408)
Total liabilities	**-**	**(408)**	**(408)**
Period ending 25 December 2016			
Assets			
Derivatives used for hedging	-	1,323	1,323
Financial assets at fair value through equity	1,039	-	1,039
Total assets	**1,039**	**1,323**	**2,362**
Liabilities			
Derivatives used for hedging	-	(3,060)	(3,060)
Total liabilities	**-**	**(3,060)**	**(3,060)**

7. BUSINESS COMBINATIONS

a) Bega Foods

On 4 July 2017 Bega Cheese announced that it had completed the acquisition of most of Mondelez International's Australia and New Zealand grocery and cheese business (Mondelez Grocery Business) which included the iconic Vegemite brand.

The provisionally determined fair values of the assets and liabilities of the Mondelez Grocery Business as at the date of acquisition are as follows:

	Bega Foods Fair value $'000
Inventories	34,000
Prepayments	726
Intangible assets	140,000
Land and buildings	62,590
Plant and equipment	30,061
Employee benefits	(6,300)
Other liabilities	(2,556)
Deferred tax liabilities	(41,230)
Fair value of identifiable net assets acquired	**217,291**
Goodwill	235,435
Net assets acquired	**452,726**
Purchase consideration:	
Cash paid	452,726

i. Consideration transferred

Bega Foods Acquisition Costs amounting to $11.7 million (before tax) are not included as part of consideration transferred and have been recognised as an expense in the Consolidated Statement Comprehensive Income for statutory reporting purposes, although these costs have been noted as one-off for the purposes of considering the underlying performance of the Group in 1H FY2018.

ii. Identifiable net assets

The fair values of the identifiable assets and liabilities have been determined provisionally as at 31 December 2017 applying estimates by management and preliminary valuation estimates by independent experts, both of which are subject to further investigation. The Group is currently obtaining the information necessary to complete formal valuations to apply for final acquisition accounting purposes.

b) Peanut Company of Australia (PCA)

On 11 December 2017 Bega Cheese held 53% of the issued share capital and voting rights of PCA. As a result, the Group has applied 11 December 2017 as the date on which it gained control for consolidation purposes.

The provisionally determined fair values of the assets and liabilities of PCA as at the date Bega Cheese gained control of PCA were as follows:

	PCA Fair value $'000
Cash and cash equivalents	160
Trade and other receivables	7,500
Inventories	16,559
Intangible assets	6,469
Land and buildings	19,986
Plant and equipment	3,506
Trade and other payables	(6,127)
Borrowings	(31,840)
Employee benefits	(2,135)
Derivatives	(287)
Deferred tax liabilities	(1,851)
Fair value of identifiable net assets acquired	**11,940**
Purchase consideration:	
Cash paid prior to 31 December 2017	11,427
Cash paid after 31 December 2017	513
Total cash paid	**11,940**

i. Consideration transferred

PCA Acquisition Costs amounting to $2.1 million (before tax) are not included as part of consideration transferred and have been recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for statutory reporting purposes, although these costs have been noted as one-off for the purposes of considering the underlying performance of the Group in 1H FY2018.

ii. Identifiable net assets

Given the very short period of time between the acquisition of PCA and statutory reporting for 1H FY2018 purposes, the fair values of the identifiable assets and liabilities have been determined provisionally as at 31 December 2017 applying estimates by Bega Cheese management based on recent unaudited management accounts of PCA and without reference to valuation estimates for acquisition accounting purposes by independent experts. The Group is currently obtaining the information necessary to complete formal valuations to apply for final acquisition accounting purposes.

iii. PCA's contribution to the Group's results

PCA contribution to the Group's revenues and profits, respectively from the date Bega Cheese gained control of PCA to 31 December 2017 was not taken to account as it was insignificant.

iv. Treatment of non-controlling interest

As at 31 December 2017 the Group owned 96% of the issued share capital and voting rights of PCA. For the purposes of these consolidated financial statements it has been assumed that PCA is a wholly owned subsidiary due to the right to complete a compulsory acquisition of the remaining 4% non-controlling interest.

8. INTANGIBLE ASSETS

a) Significant Accounting Policies

Completion of the acquisitions of the Mondelez Grocery Business and Peanut Company of Australia during 1H FY2018 continue to be assessed in accordance with the following key accounting policies of the Group (further details of the significant accounting policies of the Group which also apply to this 1H FY2018 Interim Report are set out in the 2017 Annual Report):

Business Combinations

The acquisition method of accounting is used to account for all business combinations, 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 and liabilities acquired 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 and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

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.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Brand names

Brand names recognised by the Group have an indefinite useful life and are not amortised. At each reporting period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life for the assets. Such assets are tested for impairment in accordance with the policy stated under Impairment of Assets below.

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible asset acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of Assets

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 asset's fair value less costs of disposal 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 that 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.

b) Use of Judgement in Relation to Intangible Assets Brought to Account in 1H FY2018

Material Incremental Intangible Assets

The recent acquisitions of the Mondelez Grocery Business and Peanut Company of Australia have materially increased the value of intangible assets on the Balance Sheet of the Bega Cheese Group, which based on provisional accounting estimates comprised the following as at 31 December 2017:

	31 December 2017 $'000
Bega Foods	
Intangible assets, primarily relating to brands and trademarks	140,000
Goodwill	235,435
PCA	
Intangible assets, primarily relating to water rights and intellectual property	6,469

In preparing the 1H FY2018 Interim Financial Report judgement has been required in assessing the fair value of identifiable tangible and intangible assets, goodwill and liabilities, primarily as a result of important business combinations relating to the acquisition of each of the Mondelez Grocery Business and Peanut Company of Australia.

1H FY2018 Valuation of Intangible Assets Relating to Mondelez Grocery Business Acquisition

In relation to the acquisition of the Mondelez Grocery Business on 4 July 2017 management and the Board of Directors have carefully considered the following information in estimating the provisional fair values of the assets and liabilities as at 31 December 2017:

- due diligence work completed by management and other independent advisors and provided to the Board of Directors in assessing the acquisition of the business
- preliminary detailed valuation assessments of the property, plant and equipment provided by independent property, plant and equipment valuation experts
- preliminary detailed valuation assessments of the other identifiable tangible and material intangible assets provided by independent valuation experts
- information which has been received following the acquisition as to the underlying performance of the business
- the various transition plans that have been underway since acquisition including the transition of various brands and customer relationships given the business is now under the control of Bega Cheese.

Based on the above assessment the Board of Directors has formed the view that the provisional fair values of the identifiable intangible asset and goodwill brought to account as at 31 December 2017 are reasonable. The Board intends to finalise property, plant and equipment, intangibles and goodwill valuations for business combinations and report the outcome of this work in the FY2018 Annual Report.

1H FY2018 Valuation of Intangible Assets Relating to Peanut Company of Australia

In relation to the acquisition of Peanut Company of Australia on 11 December 2017 management and the Board of Directors have considered the following information in estimating the provisional fair values of the assets and liabilities as at 31 December 2017:

- due diligence work completed by management and other independent advisors and provided to the Board of Directors in assessing the acquisition of the business
- historical audited financial statements of PCA
- recent unaudited management accounts of PCA
- an independent valuation obtained by the former Board of PCA in relation to land and buildings used in considering preparation of the PCA FY2017 Annual Report.

The Board of Directors intends to commission independent valuations of property, plant and equipment and intangibles for business combinations and report the outcome of this work in the FY2018 Annual Report.

c) Impairment of Assets

Impairment testing requires a high degree of judgement in assessing whether the carrying value of assets are supported by the fair value less costs to sell applying the net present value of future cash flows derived from such assets using cash flow projections, which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, a number of assumptions are made in respect of matters which are not certain, including judgement as to:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation, interest and tax
- timing and quantum of future capital expenditure
- long-term growth rates
- discount rates to reflect the risks involved in an investment based on the Capital Asset Pricing Model.

The acquisition of the Bega Foods business has generated a number of important new business initiatives in 1H FY2018, including integrating the Bega Foods business into the Group and transitioning a number of products to new brands, including the use of the Bega brand on peanut butter and other relevant products.

These items are considered in determining that the provisional fair values of the identifiable intangible assets and goodwill in relation to the Bega Foods business are reasonable.

The Group will complete a full impairment review of the carrying value of intangible assets as part of the 30 June 2018 year-end reporting. The carrying value of goodwill is dependent on the achievement of forecast EBITDA within the relevant businesses. There is a risk of impairment if the EBITDA of acquired businesses varies materially to the forecast.

9. SUBSEQUENT EVENTS

a) Extraordinary General Meeting

On 5 January 2018 Bega Cheese held an Extraordinary General Meeting to consider the issue of shares under the June 2017 Institutional Placement. At the EGM shareholders approved the previous issue in June 2017 of 22,890,441 ordinary shares in the Company at $5.35 per share under the Institutional Placement in June 2017 including for the purposes of ASX Listing Rule 7.4.

b) Peanut Company of Australia (PCA)

On 25 January 2018 Bega Cheese advised PCA that it had compulsorily acquired the remaining shares in the company in accordance with section 661A of the *Corporations Act 2001* and owned 100% of PCA from that date.

On 12 February 2018 Bega Cheese paid out the existing debt facility owed by PCA to NAB and incorporated the cash flow and debt financing requirements for PCA under the Bega Cheese Group Syndicated Debt Facility, utilising part of the undrawn balance of this facility.

c) Dividend

On 28 February 2018, the Directors declared an interim fully franked dividend of 5.5 cents per share, which represents a distribution of $10.2 million. An interim dividend of 5.0 cents per share was paid in respect of 1H FY2017.

10. BASIS OF PREPARATION

This Consolidated Interim Financial Report for the reporting period ended 31 December 2017 (corresponding prior comparable period ended 25 December 2016) has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This interim report includes the result of Bega Cheese Limited (Bega Cheese, Company or parent entity) and the results of the subsidiaries, Tatura Milk Industries Limited (Tatura Milk), Peanut Company of Australia (PCA) and Bega Cheese Investments Pty Ltd, joint operation Bemore Partnership (joint operation or Bemore) and joint venture Capitol Chilled Foods (Australia) Pty Ltd (joint venture or CCFA).

This Consolidated Interim Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Bega Cheese Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

a) Rounding of amounts

The Group is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

b) New and amended standards adopted by the Group

A number of amendments to standards and interpretations are available for early adoption for the current reporting period, however the Group has not applied these in preparing this financial report.

The following new or amended accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) have been identified as those that may have a material impact on the Group in the period of initial application.

i. AASB 9 Financial Instruments

AASB 9 Financial Instruments is effective for annual reporting periods commencing on or after 1 January 2018. The standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices.

The standard also introduces a new impairment model that will require companies to account for expected credit losses at the time the asset is recognised, rather than only incurred credit losses as is the case per AASB 139.

The Group is currently assessing the impact of the changes but does not expect they will have a material impact on the Group.

ii. AASB 15 Revenue from Contracts with Customers

The core principle of AASB 15 is that revenue is recognised when control of a good or service transfers to a customer at the transaction price.

AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018, which means it will be effective for the Group's financial year ending 30 June 2019.

The Group is in the process of a high level assessment of the impact of the new standard and while further work is required by management to quantify the specific impacts, management does not expect a material impact on the financial performance of the Group.

iii. AASB 16 Leases

AASB 16 introduces a single, on-balance sheet accounting model, similar to the current finance lease accounting. The standard becomes applicable for the financial year ending 30 June 2020.

Under the new standard the Group will be required to recognise a 'right-of-use' asset and a lease liability for all identified leased assets in the balance sheet. The current operating lease expense will be replaced with a depreciation and finance charge.

The Group is currently assessing the impact of the new standard on the statement of comprehensive income and balance sheet. While there is not expected to be a material impact on overall cashflows and net profit or loss, the quantification of such impacts cannot be reliably measured until further work is performed.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. the financial statements and notes set out on pages 14 to 32 are in accordance with the *Corporations Act 2001*, including:

   i. complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b. there are reasonable grounds to believe that Bega Cheese Limited will be able to pay its debts as and when they become due and payable.

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

B.A. Irvin

Barry Irvin
Executive Chairman
Melbourne

Raelene Murphy
Independent Director
Melbourne

28 February 2018

Independent auditor's review report to the members of Bega Cheese Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bega Cheese Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Bega Cheese Limited group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bega Cheese Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bega Cheese Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

P.J. Carney

Paddy Carney
Partner

Sydney
28 February 2018

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