2015 Mackay Sugar Annual General Meeting

29 October 2015

CHAIRMAN'S SPEECH

Good afternoon ladies and gentlemen and welcome to Mackay Sugar's Annual General Meeting for 2015.

The Company realised a number of operational improvements and a moderate financial performance in the reporting period.

The combination of increased tonnages and a marginal lift in sugar prices resulted in the Company increasing its revenue to $475 million.

However, with consideration of the world raw sugar price outlook, the Board decided to take a $27.5 million fair value adjustment and write down in our milling assets to comply with the accounting standards and Australian Securities and Investments Commission fair value testing requirements. Unfortunately, this resulted in the Company recording an overall loss of $11.4 million. The underlying operating profit before the fair value adjustment was $8.2 million.

Chief Financial Officer Peter Gill will provide further detail on this when he presents the financials for the reporting period.

Our milling performance showed a slight improvement on the 2013 season, but it was well below our expectations. Our operational shortcomings not only impacted on our bottom line but also our grower community.

Optimal milling performance is, of course, something we all want for our business. Our declining milling performance was one of the key reasons we had a General Meeting for shareholders in February this year, with the intent of removing myself and Syd Gordon from the Board. Although this resolution was defeated and we maintained our positions, it certainly sent a strong message to the Board and management. Two weeks following this event the Board and management commenced development of a new strategic plan heavily focused on improved milling performance and a strategy to fund it. The first of which involved monetising the STL dividend stream. Even though we have started on this journey with some improvements this current season, our ultimate goal is still some years away.

In recent years, the Board has focussed on growing the Company through increasing our asset base and creating a stronger presence in the marketing sector, with the establishment of our first large-scale cogeneration plant at Racecourse Mill and the acquisition of Mossman Mill, and the creation of our subsidiary marketing business, Queensland Commodity Services (or QCS).

Getting the balance of growth and maintenance right is a difficult task for all large operations; however, through this period of growth and diversification, we maintained our focus on improving milling performance, conducting extensive maintenance and capital programs totalling an average of $78 million per year for the last 6 years.

What’s made it all the more challenging for our business over recent years, is a depressed world sugar market, weather impacts, aging assets, and the reduction of cane land, and these circumstances continue to influence our business planning considerably.

On the growing side, increasing input costs, pest and disease, lower returns, and uncertainty of marketing arrangements all test grower confidence in the industry. I know it's easy to become disgruntled and angry with the world when all we hear is doom and gloom and people continuing to pull the industry down, but we must lift ourselves out of this mindset and adopt a positive outlook.

We do have a lot going for our Company, much more than a lot of other participants in the industry. The fact we are in control of our destiny is the envy of many other growers especially during this period of market uncertainty and the uncertainty of future returns which is placing great stress on these growers. Mackay Sugar growers are the only growers who can participate in the whole price discovery journey, from the day they plant their cane, to when it arrives as sugar at the final destination. One downside is that we don't have a multinational owner who can tip large amounts of funds into the business when things are tight, but that is the choice we make, for control.

I know we are going through a very difficult period, primarily driven by crop and price, indications are that circumstances have started to improve with the sugar price coming off the 10c/lb lows we have recently witnessed.

As we have previously indicated, we are forecasting an 18-$20 million loss for the year ending May 2016. The Board and management have been positioning and bracing the Company for this scenario. When we decided to monetise the Sugar Terminals Limited (or STL) dividend stream to fund our Strategic Plan of improved milling performance, it wasn’t then evident that some of these funds would be required to cover the shortcomings of this year’s price and crop. Nevertheless, we’re prepared for this scenario.

The Board will work with Management to leave no stone unturned and squeeze every last cent of costs out of the business as we brace ourselves for the coming years ahead. Remember a dollar saved is a dollar you don’t have to earn.

With the cost cutting that has happened over the last few years there comes a point where any more cost cutting will start to impact season length and milling performance; I think we’re close to that point.

The next couple of years are not going to be easy, we must remain positive, help and work with each other and ask ‘how can I play my part in seeing the industry through this difficult period ahead to ensure the Company you and I own continues to grow’.

We all must make a positive contribution, being negative at times like this is extremely damaging for the Company.

Now I’d like to talk to you about the reporting period.
Let’s firstly have a look at our people.

In the year under review, we delivered an improved Safety Index score of 1.08; however, our overall safety performance was disappointing. Our Lost Time Injuries total was 11 – an increase of three on the previous year. As a result of the increase in injuries, we achieved a Lost Time Injury Frequency Rate of 6.96, 15% higher than the 2014 figure of 6.07.

Regrettably, we also had a serious safety incident at our Mossman Mill with one of our employees sustaining extensive injuries to his leg. We actively participated in an investigation into this incident with Workplace Health and Safety Queensland and subsequently made a number of modifications at our site to reduce the likelihood of a similar event reoccurring.

With the implementation of the hazard identification tool, SugarSafe, during the reporting period, we hope to record improved safety results for the year ending May 2016…and the current data suggests this is an achievable outcome.

We realised a 33 per cent improvement on our 2010 Employee Engagement Survey results, demonstrating good progress in transforming the engagement of the workforce and identifying areas requiring further attention.

We also experienced a stable workforce during the year as a result of changes in the regional employment market and initiatives within the Company to retain and attract skilled talent.

I'd now like to talk about our operations.

We milled 5.5 million tonnes of cane in Mackay and 1.1 million tonnes in Mossman during the year. This was a significant challenge for Mossman – with the mill being pushed to its absolute limit to crush almost double the amount of cane it crushed in the previous year. With the larger crops, we produced more sugar, realising over 920,000 tonnes. However, our season length in both regions was pushed out with wet weather impacts and operational issues.

It was the second full year of operation for the Racecourse Cogeneration Plant, and the plant's annual power generation increased to 206 gigawatt hours (compared to 175 gigawatt hours in the previous year). Power export to Ergon Energy also increased.

It was a big year for projects – with our Farleigh Boiler Upgrade, the Mackay Port molasses bladder, and the Marian Process Cooling Tower delivered on time and within approved budget.

Looking now at cane supply...

In Mackay, we recorded an average yield of 79.6 tonnes per hectare – a marginal increase on the previous season. Yields also improved in the Mossman region, with 81.6 tonnes per hectare achieved – largely due to the additional cane supply from the Tablelands area.

Sugar content for the Mackay region was slightly down on the 2013 season, with a PRS of 14.30 units achieved; however, in Mossman we experienced higher levels, recording an average CCS of 13.22, which was above the five-year average.

We continued to make improvements to our cane supply logistics in the 2014 season, with positive results achieved in the areas of safety, communication, customer service, and operations. Specifically, in Mackay, we set an initial stretch-target of 85 per cent for improvement for our Bin Delivery and Harvest Strategy for the 2014 season. Shortly after the commencement of the 2014 season, performance was assessed against this target taking several external factors (such as spread of harvest hours, factory crush consistency and availability) into consideration and a final target of 80 per cent on-time deliveries was set for the season. Over the whole season the average number of on-time deliveries per week was 81 per cent with some weeks even peaking above 85 per cent. In the 2013 season we recorded 77 per cent, so this was a pleasing result. Now that we have developed a system to measure our performance, we can now better manage our performance.

We successfully moved back to a push-pull cane bin system in Mossman and integrated a number of Mackay grower information systems to speed up information flow and accuracy.

Our commitment to cane supply growth continued during the year, with 712 hectares of additional cane land secured in the Mackay and Mossman regions.

On the marketing front - world market sugar prices were marginally higher in the financial year, with an average price of $438.76 achieved, representing a significant improvement on the previous season.

As you know, Wilmar, MSF Sugar and Tully Sugar gave notice to withdraw from the QSL marketing arrangements with effect from the 2017 season. Fortunately, we had predicted this outcome and set in place the marketing alliance between our subsidiary marketing company, QCS, and Copersucar for our Economic Interest export sugar in late 2014. Subsequent to this agreement, Copersucar entered into a joint venture with Cargill's sugar trading business to form Alvean Sugar, the largest sugar trading and marketing company in the world. This resulted in our marketing agreement with Copersucar being novated to Alvean Sugar. The 2014 season saw the first sales and shipments made under this agreement.

This is an extremely valuable partnership as it facilitates information sharing on market intelligence for use in our trading and price risk management operations.

The raw sugar marketing negotiations continued throughout the year – and are still continuing today. The situation presently is very tense, with a lot of discussion and positioning going on behind the scenes in an attempt to find a solution. I don't think we will move forward until key players move off previously stated positions. The best possible outcome is an industry agreed solution because any government intervention will be detrimental to all involved.

QCS completed its first full financial year in May 2015, posting successful results against its set objectives. The company managed to enhance revenue in its pooling and pricing operations by more than A$2.7 million above benchmark values, as well as create $4.8 million of additional value to our Company via sugar and currency trading operations.

Deputy Chairman Syd Gordon will provide more detail on QCS later in the meeting.

Furthermore, during the 2014 crushing season, we successfully implemented a campaign to market J-spec sugar from the Mossman region in conjunction with QSL. We worked with both QSL and Mossman personnel to successfully produce and market three cargoes of sugar produced at the Mossman Mill to the Japanese market.

Now to grower relations...

During the reporting period, through QCS, we rolled out an online Grower Pricing Portal to give our growers far greater access to price risk management tools and information on sugar prices and markets.

A 'One Mossman' workshop was held in the year to improve the coordination between the Mossman Mill, Mossman growers and Tableland growers. Having operated autonomously for many years, the three groups discussed ways in which they could work together for the future profitability of the Mossman Mill.

During the year, we placed a particular focus on enhancing grower communications. We extended our quarterly internal publication, Mill Mag, to our growers and shareholders.

We also continued to make improvements to our customer service, enhancing cane rail siding communications and our day-to-day communications between the Operations Centre and our growers and harvesting contractors.
We also improved our grower complaint process in the 2014 season, realising improved response and resolution timeframes.

At our 2015 strategic planning session, held in February, the Board and Executive team revised the Company's vision. Our vision is now *to be '<u>the</u>' innovative, diversified and profitable sugarcane-based business delivering exceptional value to stakeholders through:*
- engaged and skilled people;
- industry best milling performance;
- efficient supply chain integration; and
- transparent marketing and price enhancement.

Our Business and Strategic Plan is focussed on delivering an operational performance that will meet the expectations of our grower shareholders while ensuring the financial stability of the Company. A number of KPIs were identified that will assist us to further optimise our operations over the next six years, with the ultimate goal of processing 5.8 million tonnes and 1.2 million tonnes of cane over a 23 week and 26 week season at 90 per cent availability in Mackay and Mossman respectively by 2021.

Of course, the successful delivery of the Strategic Plan's objectives depends largely on adequate funding, which leads me to the recent STL shares transaction. As I mentioned earlier, in early September, we entered into an agreement with One Tree Agriculture Proprietary Limited (or OTA), which allowed us to monetise the income stream from our 25.1 per cent shareholding of M Class shares in STL. OTA paid a capital sum in exchange for the rights to the income stream from the STL shares for a period of 8.6 years.

OTA is a subsidiary of Black River Ag Fund 2 Investment (Australia) Proprietary Limited, which owns four subsidiaries in Australia, including Racecourse Projects Proprietary Limited, in which Mackay Sugar holds a 14.9% shareholding interest.

It's important to note that Mackay Sugar remains the registered owner of the STL shares and we will continue to exercise our voting entitlements in relation to our STL shareholding.

Delivering against our Business and Strategic Plan, with investment in our future operational performance, will remain a priority throughout the year ending May 2016. I'd like to think that with a renewed focus on our core business, combined with new leadership, we will deliver improved results across our business in the next financial year.

There have been significant changes within the business during recent times. The departure and replacement of our CEO; the departure of two independent Directors, one being the Deputy Chair, and the soon to be announced replacement of one independent; the reorganising of Board subcommittees, with the establishment of the new Milling Operations Strategy Committee to give the Board more oversight of milling, and of course the adoption of the new Strategic Plan, which includes the huge amount of work to develop the KPIs to ensure the plan is achieved. These are some of the recent significant changes within our Company; as you can appreciate, it does take time for the changes to be fully realised.

In conclusion, I would like to convey my thanks to each of our growers and shareholders, and a special thanks to former CEO Quinton Hildebrand who has left a legacy of growth and diversification with Mackay Sugar, we wish him well in his new role in the billion dollar chicken industry. Thanks to our current CEO Jason Lowry, the Management team, and every member of our Mackay Sugar workforce for their commitment to the business throughout the financial period.

Thanks must also go to our grower leadership in the Tablelands, Mossman and Mackay.

I also thank former Deputy Chairman Ray Magill, who retired on 15 September for his commitment to the Company over the last ten years, the current Deputy Chairman Syd Gordon, who has lightened my workload on local issues allowing me to focus more on industry issues and of course my fellow Directors for their professional contribution and support during the year.

I can report that the Board and management are working well together with improved milling performance being the key focus.

I would now like to invite the Chief Financial Officer, Peter Gill, to address the growers and shareholders.

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