

## Annual General Meeting – 26 October 2011

### Chairman's Address

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Ladies and gentlemen, I am sure you will all agree the 2010 season was one of the most difficult seasons on record.

The extreme weather experienced throughout the season had a significant impact on our operational and financial performance for the 2011 financial year.

Mackay experienced 3,386 millimeters of rain from the end of May 2010 to the end of May 2011, recording incredible levels of 239 millimeters for September, 597 millimeters in November and 737 millimeters in December.

Of course, this rain led to disrupted harvesting...and ultimately we couldn't get our full crop off. The conditions also led to difficulties in processing due to the dirtier cane.

As the season progressed, it became evident that our crop estimate of 5.3 million tonnes would not be harvested, we were required to revise our profit forecast.

Ultimately, we posted a profit of only \$0.5 million – a \$43.8 million decrease in net profit from the 2010 financial year...as you will see here on the slide.

Subsequent to the weather events, we saw 13 per cent of cane left unharvested; a disappointing 4.56 million tonnes of cane milled, an average cane yield of only 73.3 tonnes of cane per hectare and an average PRS of 13.04 units, and a sugar per hectare average of 9.83 tonnes.

Additionally, we were required to absorb \$10.8 million in QSL crop reduction costs. However, together with our bargaining agents, we were able to resolve this issue via an agreement that involved sharing this cost.

Our growers absorbed their share of these costs and, together with QSL, Mackay Sugar took on a favourable funding arrangement in which the \$10.8 million was financed.

Under this arrangement we were able to increase the initial advance payments for the 2011 crop from \$265 to \$290.

Of course, we must also celebrate the highlights of the year....

We continued to display our commitment to increasing the area of land under cane through the continuation of our 'Secure the Future' Scheme and the creation of a department dedicated to cane expansion.

With the earlier start to the 2011 season, we had a reduced 2010/11 maintenance season – however we were still able to complete maintenance and capital works across our mills to improve operational efficiency.

We proceeded with the development of our Cogeneration Project at Racecourse Mill. This project emphasises our vision to establish a diversified business which utilises traditional milling practices to establish additional revenue streams.

We also restructured our business to assist us to achieve the objectives of our Strategic Plan.

Cane Supply Security is a key focus of our Strategic Plan. In fact – the Board's objective is to have an additional 5,000 hectares of land under cane in five years time.

You can see on this graph how our yield has declined over the last few years. Whilst we know we won't be able to achieve the 80,000 plus figure for some time, we aim to reach approximately 77,000 hectares in five years time.

So, to meet this goal, we continue to develop new initiatives, which will be driven by our newly created Cane Expansion, Property and Stakeholder Engagement department, headed up by Dave Langham, and new Cane Development Manager David Armstrong.

The Board announced the roll out of the 2011 Plant Loan Scheme in late July this year, providing loans for both vertical and horizontal expansion as a means of assisting growers to re-establish their farming area under cane, following the damage caused by the abnormal wet in 2010 and early 2011.

These loans were available at \$1,750 per hectare for vertical expansion for areas greater than 10 per cent of assigned area and at \$2,500 per hectare for any 'new' area which has not grown cane for more than two years. Approximately \$1.4 million has been advanced to growers under this scheme to-date.

I am pleased to announce today that the Board has approved the continuation of the Plant Loan Scheme for 2012, under the same terms and conditions.

In an attempt to further increase our total area under cane, we have also offered 'Secure the Future' Schemes for the past three years.

As you know, the 'Secure the Future' Scheme allows growers to access the option of a guaranteed price for their cane based on the predicted sugar produced being priced on the futures market, which has seen prices of \$450 per tonne/sugar and \$420 per tonne/sugar over the past three years.

To-date, these schemes have resulted in 400 hectares of new land being planted.

I would also like to announce that the fourth version of Secure the Future will be available for 2012 for any 'new' land that has not grown cane for more than two years at a guaranteed sugar price of \$500 per tonne which equates to a cane price of approximately \$43 per tonne of cane.

These schemes are a demonstration of the Board's commitment to offer attractive incentives that encourage growth and stability in the grower base of Mackay Sugar.

The combination of these two schemes also assists us in minimising the risks associated with introducing new land for cane production.

Another initiative we are also looking into is leasing arrangements. We recently ran an 'Expressions of Interest' advertising campaign in the Daily Mercury...and the response has been encouraging.

The information we've gathered from this campaign will assist us in establishing a business model for leasing land...and bringing additional land into production.



We're also acutely aware of how important R, D & E is in our strategy for increasing our yield, and therefore continue to fund bodies such as BSES and MAPS.

Both BSES and MAPS are playing a lead role in the Australian Sugar Industry R, D & E Reform Project.

If agreement can be achieved and implemented it will change the way R,D & E is conducted in Australia.

You will be the ones who will decide on the changes, so I urge you all to keep an open mind until the full plan is presented.

We continue to support the change to the cane payment formula, introduced 6 years ago, which guarantees growers receive extra payments for molasses and fibre.

The 2010 season saw an extra \$2.35 per tonne of cane paid to growers from benefits of our cane payment formula.

We are the only miller in the state that continues to select prices and forward price sugar for our growers.

Ladies and gentlemen as you can see, we are determined to incentivise our growers to increase production and we will continue to look for new initiatives to do this.

But the fact of the matter is that the average yield for the last four years has been 69 tonnes per hectare with an average crop of 4.8 million tonnes.

The lack of crop has constrained our ability to invest within the business and bring on new diversification projects.

It has also severely limited our ability to be proactive in the consolidation of the industry.

We need your support, for the Board to consider options to bring new capital in to the business so we can grow and continue to add shareholder value.

A presentation on this will be provided later in the meeting.

The year has also seen further rationalisation throughout the sugar industry.

Since June 2010, foreign ownership has increased from 12 per cent to approximately 65 per cent.

The increasing demand for sugar, particularly in the Asian market, is a major contributor to this scenario. And it only makes sense that they would want to cut in on the action in the Australian sector.

Three major acquisitions have occurred in the last 12 months – in November 2010, Mitr Phol acquired a 20 per cent stake in MSF. In December 2010, Wilmar acquired Sucrogen. And, of course, in July this year – COFCO acquired Tully Sugar.

Mackay Sugar remains committed to forming a larger sugar entity with other grower owned mills.

I would just like to recap on our efforts afforded to achieve this goal this year...

In May 2011, we announced our takeover offer for Tully Sugar.

As at 31 May 2011, we had acquired 9.61 per cent of issued capital of Tully Sugar and shortly after the end of the financial period, we acquired a further 676,250 shares (at \$43 per share) for a total cost of \$29 million.

By 8 July (the bid closing date), our total shareholding was 973,081 shares (31.5 per cent). The estimated value of these shares was \$42.8 million (at \$44 per share). COFCO, of course, successfully acquired Tully after gaining 61.25 per cent interest in the company...which included the 6.9 per cent stake owned by Bunge.

Additional borrowings from Louis Dreyfus Commodities of \$28.3 million were drawn subsequent to the financial reporting period to fund these further share purchases. Our total borrowings with Louis Dreyfus as at the bid close date were \$32.8 million.

After much consideration, the Board chose to sell our shares in Tully Sugar on 18 July 2011 for \$44 per share and the LDC loan was fully repaid on 9 August 2011.

So...why did we sell our shares in Tully?

The Board agreed that it was not in the best interest of our shareholders to maintain a portion of Tully Sugar shares along with majority shareholder COFCO.

However, resulting from the sale of our shares, we achieved a profit of almost \$1.2 million.

It is important to note that our strategy for Tully was largely affected by the challenges surrounding the initial stages of the Racecourse Cogeneration Project. The company who were awarded the Power Plant Engineering, Procurement and Construction contract (AE&E) went into voluntary administration in November 2010, which led to us taking over the contract to manage it ourselves.

So, in this process we had to manage risks...which of course interrupted our share acquisition and allowed other bidders to get ahead in the process.

We were unable to do it on our own and having to negotiate a partnership in a competitive tender situation meant we were always a follower in the process.

This is something we need to address as a business and we will discuss this later in the meeting.

In March 2011, the Board of Proserpine Sugar Mill called for expressions of interest in their business.

We submitted an expression of interest.

However, we were unable to provide a full cash offer on our own and it would have been irresponsible of the Board to debt fund the acquisition of Proserpine.

The Board of Proserpine has indicated the majority of their members are pursuing cash, rather than ongoing ownership, so they've recommended the Sucrogen offer.

Whilst Sucrogen's offer was originally voted down in August (attaining only 70 per cent of support from Proserpine members), that same deal is the one currently recommended by the Proserpine Board.



I guess we will see what eventuates with this on Friday. And, if unsuccessful, there may be an opportunity for Mackay Sugar. However, it would have to be in the best interest of our shareholders.

Rationalisation of the industry will continue.

Over the next few years we will see some significant changes.

We still believe that three or even two major sugar entities will be created.

What are we doing about this? Well, the Board continues to strategise, developing options for our business going forward.

We maintain our commitment to form a larger sugar business with other grower owned mills.

I speak for all of my colleagues on the Board when I say that our participation in the rationalisation of our sugar industry will only be done in the best interest of shareholders.

So what about the year ahead?

We can expect to see further challenges in the coming season, with the effects of the excessive rainfall experienced during the 2010 season set to remain a hindrance to productivity.

However, I am confident we will, again, emerge from these challenges a stronger and wiser Company and will continue to build on our skills and growth opportunities to meet the expectations of you – our shareholders, and of those within the communities in which we serve.

In conclusion, I would like to thank our growers – it was a tough season – but you persevered, displaying enormous strength - harvesting virtually every last stick of cane this season.

Thank you also to our grower leadership CANEGROWERS and ACFA for your support throughout the year, and to our R,D&E associates, who share our vision to improve farm productivity within our region.

I would like to thank my fellow Directors who have contributed and given much more of their time to address the challenges we faced in the last 12 months. We have a good balance on the Board with each Director complementing each other's skill sets.

And finally, I'd like to thank the Management team and employees for their continued hard work and commitment to growing our Company.

I would now like to invite Deputy Chairman Ray Magill to address the shareholders.

**ENDS**