



Mackay Sugar Annual Report 2017–2018



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About Mackay Sugar

Mackay Sugar is Australia's second largest sugar milling company, with over 140 years' experience. We are a farmer-owned company and have three operating milling sites in Mackay – Farleigh, Marian and Racecourse, and one in far north Queensland – Mossman. Our main office is located at Racecourse Mill, Mackay.

Mackay Sugar was formed as a Co-operative in 1988, when five formerly independent milling Co-operatives (Marian, Racecourse, Cattle Creek, North Eton and Farleigh mills) merged and acquired Pleystowe Mill from CSR Limited. As part of the strategy for greater efficiency, the North Eton, Cattle Creek and Pleystowe mills were closed in 1988, 1990 and 2009 respectively and their operations integrated into the remaining mills.

With an appetite to maximise our business opportunities, shareholders voted in favour of converting Mackay Sugar Limited to an unlisted public company in July 2008. As at 31 May 2018, we had 979 growers (2017: 1012) supplying cane to our mills and 1066 (2017: 1062) shareholders holding investment shares.

Our revenue base includes raw and refined sugar, molasses and electricity (made from the sugar by-product - bagasse). From the sugar manufacturing process, we also produce mill mud and ash, which is distributed to our growers and applied to their cane paddocks as a beneficial soil conditioner.

We hold a 25 per cent interest in the Sugar Australia Joint Venture (SAJV), comprising Sugar Australia and New Zealand Sugar Company. Wilmar Sugar holds the remaining 75 per cent stake in these refining businesses. Products from the joint venture's three refineries, located at Mackay's Racecourse Mill, Yarraville in Victoria and Auckland, are marketed by Sugar Australia Pty Limited and New Zealand Sugar Company.

As at 31 May 2018, we employed 859 people in a variety of roles across our operations. This includes planning, procurement, information technology, human resources, accounting, administrative, trade, technical and processing roles. Approximately 351 people are employed on a seasonal basis to assist permanent staff with our crushing season (May to November) operations. During the 2017 crushing season our total workforce was approximately 905.





Performance Summary

For the Year Ended 31 May 2018

Five-year summary (operational, financial and people statistics)

	31 May 2018	31 May 2017	31 May 2016	31 May 2015	31 May 2014
Production					
Tonnes cane milled	6,151,356	6,862,864	6,191,429	6,668,039	5,648,839
Tonnes sugar produced (IPS)	795,756	856,127	863,434	923,242	824,631
Tonnes of molasses	218,022	239,716	211,922	216,046	180,359
MSL total average sugar price	\$469.82	\$487.48	\$409.92	\$438.76	\$410.70
Financial (\$'000)					
Operating revenue	448,851	498,833	432,904	475,165	430,110
Gross profit	197,783	217,847	200,652	208,380	179,859
Net interest expense	12,945	13,014	14,921	12,848	11,830
Net profit/(loss)	(20,427)	(33,414)	(26,063)	(11,391)	5,164
Net operating cash flow	19,996	43,644	(10,914)	33,534	31,437
Total Assets	490,232	522,409	553,531	557,796	554,175
Total liabilities	285,243	306,130	331,188	290,076	280,594
Net assets/Total equity	204,989	216,279	222,343	267,720	273,581
Capital expenditure	12,281	22,760	28,577	28,042	31,155
People					
Total employees	859	908	927	909	781

Executive Chairman/ CEO's Review

The two key determinants of profitability of Mackay Sugar Limited (MSL) in any year are sugar price and quantity of cane crushed. In the 2017 season we crushed 4.97 million tonnes in Mackay and left 275,000 tonnes of standover cane. At Mossman we crushed 875,837 tonnes with an additional 302,643 tonnes toll crushed at the Tablelands Arriga mill. Our total crop was 6.15 million tonnes. This compares to a total of 6.86 million tonnes in the previous year where we left an estimated 515,235 tonnes of standover. Mackay averaged 74.3 t/hectare (from 66,942 hectares harvested) and 13.43 PRS and Mossman 92.3 t/hectare (from 12,762 hectares harvested) and 13.37 CCS. The 2017 Mackay crop suffered residual effects from severe tropical cyclone Debbie which passed just north of the Mackay region around 28 March 2017, contributing 800mm of rainfall in that month alone.

Sugar prices for MSL averaged \$470/tonne IPS sugar in 2017 season versus \$487/tonne IPS in 2016. Total revenue was \$449 million for 2017/18 against \$499 million in 2016/17. The reported loss for the year was \$20.4 million (\$33.4 million 2016/17) with an underlying operating loss of \$14.6 million (\$1.4 million 2016/17). This has delivered an operating cash surplus for the year of \$10.0 million and a reduction in net debt of \$9.2 million to \$178.9 million.

Mark Day
Executive Chairman and CEO



Sugar Markets

Sugar prices are likely to remain at lower levels in the near term. A rolling three-year surplus cycle has driven prices below the cost of production for all sugar producers. Lower prices are traditionally a signal to choke supply intentions, however we have seen several large sugar producing nations (particularly India and Pakistan) react with supportive agricultural subsidies. Against an evolving backdrop of lower global demand, the subsidising of sugar production is likely to see prices stay lower for longer. Brazil, the world's largest producer, has also been able to lower their cost of production via a significant weakening of the Brazilian currency. The currency has now depreciated by 35% over the past 12 months. Local producers are expected to also get some relief as the Australian dollar is also likely to continue to weaken as a consequence of the USA's initiatives to reregulate global trade flows.

We have seen these issues in past decades and eventually global production growth slows and consumption growth gradually rises, some of the weaker participants close, others grow, and sustainable sugar prices return. The Mackay and Mossman regions have worked through and survived these times in the past and we are committed to do whatever we can again to take the business through this challenging phase this time around.

MSL gave notice to QSL that we were terminating the Raw Sugar Supply Agreement (RSSA) on 1 December 2017. This meant that MSL could start a process, initially with QSL, to establish an On Supply Agreement (OSA) so growers could access pricing pools offered by different marketing entities if they so wished. Queensland Commodity Services (QCS) our wholly owned subsidiary, continues to operate pricing pools for growers as well as providing access to the domestic market sales of raw sugar to the Sugar Australia Refinery at Racecourse mill. The OSA agreement with QSL is well advanced and it is envisaged that growers will have access to QSL for the 2019 season.

Once the On Supply Agreement with QSL is in place this will allow growers access to QSL's pools in addition to those offered by QCS. Additional OSAs can then be negotiated with other marketers nominated in accordance with the grower choice in marketing legislative changes.

Operations

The 2017 season was again difficult in terms of mill performance. The weather was relatively kind in the first 19 weeks of the season with low levels of rain stoppages but in the final six weeks, rain impacted harvesting and milling operations with the season ending around 10 December 2017. Unfortunately, approximately 4,110 hectares of cane area was not harvested which is a disappointing outcome for both growers and MSL.

Maintenance expenditure was \$50.7 million and Capital Expenditure \$12.3 million. Major capital works prior to the 2018 season were:

— No 2 bagasse conveyor refurbishment – Marian	\$1,018,000
— C2 bagasse conveyor refurbishment – Farleigh	\$ 619,000
— Refurbish apron conveyor – Racecourse	\$ 495,000
— No 8 pan extension module shell replacement – Racecourse	\$ 450,000
— Evaporator vessel compliance (all mills)	\$ 412,000
— Factory/Cane Supply safety initiatives and guarding	\$ 325,000
— Repower Dulverton locomotive	\$ 245,000

Cogeneration – Renewable energy

MSL's investment in cogeneration continues to generate income. The performance of the core equipment at Racecourse has been relatively good and in line with the original investment proposal. However, part of the original investment proposal included larger crops of cane, better mill performance and better energy recovery at the three mills and these aspects have not met expectations. There is considerable work we need to complete to bring the mills' energy efficiency up to the original proposal and work has commenced in the design of these improvements. This will require considerable capital investment and will place pressure on our already very limited funds.

The offtake agreement with Ergon expires at the end of this year and a tendering process for a new contract will be conducted.

Safety and the Environment

As part of management's and the workforce's focus, we want everyone to be able to participate in the industry in an environment where it is safe. This is far more important than any operational or financial performance parameter. Tragically, one of our employees died while shunting cane bins during the 2017 season. We have provided support to the family. Extensive investigations both external and internal have not yet been able to determine the cause, however we continue to look at all our operations and practices to reduce the risk of harm to our employees and the community. Safety focus has increased and all management and supervisors have higher focus on safety engagement with all employees on a routine basis, to reduce the exposures to risk for them, our contractors, growers and the community.

During the 2016 season, an unlicensed effluent discharge was released from Marian mill which resulted in a fine of \$160,000 in 2018 (YEM19) plus costs, but no conviction was recorded. Training and monitoring has been significantly improved since this event to address identified shortcomings in our process.

Our environmental performance is an important part of our licence to operate and focus in this area has also been increased by our management, supervisors and employees.

\$2/Tonne Deferred Cane Payment

Most Mackay growers via their bargaining representatives, agreed to a deferred cane payment of \$2/tonne for 2017 and 2018 seasons. A small number of independent bargaining representatives challenged MSL's ability to deduct this contribution. Following two court cases it has been determined MSL did not have a right to deduct this contribution without the approval of their bargaining representatives. This money has been returned to those parties.

Understandably in our industry, which historically operated in a very collective manner and was in the past a grower owned cooperative, there is tension over those who are contributing and those who have not contributed.

The \$2/tonne contribution has been essential for the maintenance program prior to the 2018 crushing. With our debt levels where they are, there was no headroom to raise further funds. Without these contributions from the vast majority of our growers in Mackay, MSL was at risk of a further fall in milling performance. We wholeheartedly thank the growers who have contributed and we have seen positive benefits in crushing performance in the first half of the 2018 season as a direct result of these contributions. Our aim is to crush all the 2018 crop and maximise sugar recovery, which will deliver financial benefits to all growers and MSL.

Current Environment

With the 2018 season crushing all but completed we are estimating a crop of 4.8 million tonnes in Mackay and 1.1 million tonnes in Mossman (including toll crushed cane). The world sugar price is in decline and after taking into account the positive impact of sugar already priced MSL is expecting an average final price of \$402/tonne IPS. This coupled with a reduced crop our 2019 profit and resulting cash flow will be significantly impacted. In addition to pursuing the recapitalisation process management with the support of the Board continue to have ongoing discussions with our bankers and FIIG to ensure their ongoing support which is essential for MSL to remain a going concern.

Our Future Focus

The Mackay Sugar Board is focussed on the safety of our people, environmental compliance and improving our operational performance. At the same time we need to restructure our capital base. Our focus is on our core business, to rebuild mill performance and our balance sheet.

The 2018 season crop has suffered from an extended dry period, and supplemental irrigation has helped in a number of areas. Rainfall for the 12 months up to the end of June 2018 was only 850mm, a one in fourteen year occurrence. Average for this period over the last 60 years is around 1450mm so this is a significant deficit and is impacting yields. The original forecast for the 2018 season was 5.09 million tonnes of cane but as the dry weather has continued we have estimated a 5% reduction, with a likely further reduction if the conditions continue.

On the positive side, CCS/PRS levels in cane are exceptional, cane cleanliness is good and dirt levels are low.

In our operations, we are focussed on crushing Rate, mill Reliability and sugar Recovery, the three 'Rs'. If we do this well then we crush all the cane, recover a maximum amount of sugar from the cane and hence maximise industry returns for growers and MSL. At the same time we need to ensure every dollar in our operating, maintenance and capital budgets is spent in areas that focus on these three R's.

All milling trains had significant maintenance prior to the 2018 season. In the Mackay region over 55% of the 2018 season crop has been harvested before the end of August. Compared to the same period in 2017 season, around 250,000 tonnes more cane has been crushed. Mill reliability is up 4.3% to 82.9%, and sugar recovery improved by 3.2% to 87.5% compared to the first half of the 2017 season. There is still half the season to go and the aim is to crush every stick of cane supplied. It is good to see this positive step change in performance for the first half of the 2018 season. We are experiencing lower fibre levels in the cane this season and unfortunately, this impacts negatively on our cogeneration revenue.

Recapitalisation

Our net debt at \$179 million needs to reduce to lower the cost to finance our business. The accumulation of increased debt over the last eight years has left MSL with an unsustainable debt level. This has arisen as a result of sugar price, crops and investment decisions.

During the last two years, the Board has been working with Investment Banker Kidder Williams to find an investor for MSL. Initially options to recapitalise parts of the business, like the sale of the cogeneration plant at Racecourse, were considered. However the process did not yield adequate bids and would have exposed us to operational risks by having a third party in control of plant that was critical for our ongoing operations. Following this, a process to attract indicative non-binding bids for the business was initiated, and completed in December 2017. Several parties were then invited to participate in the next phase working towards a binding bid.

The companies in this phase have incurred significant expenditure in undertaking this process on legal, accounting, engineering advisory and consulting fees in order to complete their due diligence on MSL.

Whilst the details of the potential bidders have to remain confidential at this stage, the Board will give you a detailed update as soon as we are able to do so. Hopefully we will have a proposal to put to the shareholders before the end of the 2018 calendar year. It is important for the sugar industry in Mackay to find a suitable partner who will work with us to become strong again and sustainably competitive into the future. While we progress through this process, we can only do so on the basis that our existing funders continue to support the business.

Sale of Mossman

MSL acquired Mossman mill in 2012. Since that time, there has been significant expenditure to improve the mill and to process extra cane acquired from the Tablelands. The total of the extra cane from the Tablelands region in addition to the coastal cane is greater than the capacity of Mossman mill and therefore 302,643 tonnes was toll crushed at MSF's Arriga mill.

The Board made a decision to find an exit path for MSL, to sell Mossman. It is not easy to manage from a distance and we need to focus on improving the Company's core operations in the Mackay region. Several options were considered with a number of interested parties. We have currently executed a put and call option agreement with a company controlled by growers in the Mossman coastal and Tablelands region who want to buy the mill. There are a number of conditions precedent that need to be satisfied, including the completion of due diligence. The growers are the natural owners of this operation in the north and we are doing what we can to help them to transition the ownership by the end of this calendar year.

Cane Supply Agreements

As a result of a series of events, the Mackay grower base has split into a number of Bargaining Representatives. We have one large collective group under the CANEGROWERS and Australian Cane Farmers Association, and now a number of individual bargaining representatives representing single and small groups of growers. This has made the complexity of managing the Cane Supply Agreement more challenging than in the past.

With the recent court rulings, it is likely that the whole Cane Supply Agreement will need to be revisited so that we have a clearly understood and workable arrangement for cane supply and payment with all growers in Mackay. The existing document is at a stage where it needs renewal and updating to take into account current and future conditions. While this is an arduous task to complete, with a number of parties wanting differing conditions, it is something that we must all come to agreement on – as the current legislative requirements are that there must be a Cane Supply Agreement in place before a mill can accept cane from a grower. We look forward to working together with all grower representatives to develop a new modern Cane Supply Agreement.

Board and Senior Staff

At the November 2017 Annual General Meeting, Directors Lee Blackburn and Paul Manning were re-elected for another three year term. We congratulate them on their reappointment. Jeffrey Grech filled a vacancy created by the resignation of Sydney Gordon in May 2017 and takes on the original three year rotation of this position. This Director's position is up for re-election prior to the 2018 Annual General Meeting, keeping in line with the existing rotation.

Following the 2017 Annual General Meeting, the Board asked me if I would take on the position of Chairman and I humbly accepted the role. It is a privilege to be asked to serve in this role.

In January 2018, Jason Lowry, CEO resigned from MSL after 5½ years of service. The Board thanked Jason for his service during this time and wished him and his family the best for the future.

Following Jason Lowry's resignation the Board asked if I would take on the role of CEO. My entire working life has been in this industry, mostly in Australia but also overseas in major sugar producing countries. I give you my undertaking to work relentlessly with the knowledge and skills that exist within the Board, management and the workforce to get the best outcome for MSL in the near term.

In May 2018, Craig Bentley General Manager Cane Supply and Logistics resigned. Jason Walton stepped up to take on the Cane Supply Manager's role with the maintenance functions restructured into the Asset Services area.

In July 2018, Terry Doolan, General Manager Operations, retired from MSL after 33 years' service over two periods. The Board wished him and his family the best for his retirement and thanked him for his service over a long period, starting as an apprentice fitter in 1970 and rising to General Manager Operations until July 2018. As we now have four very experienced mill managers in Peter Flanders, Mark Gayton, Craig Wood and Phil Miskin, Mr Doolan's position has not been filled and the mill managers now report directly to the CEO.

Finally, I would like to thank the Board for their support in my current role. The current Board is working well together and provides me with support in many areas, well beyond what would normally be expected from their roles. We have a challenging time ahead of us.

Sometimes we fail to see what we really have around us and how good the local sugar industry already is. Having worked in a number of sugar regions in Australia and overseas, it is clear to me that we have one of the best regions in the world climatically to grow sugar cane, efficient irrigation schemes, world class sugar terminals, a well-educated grower and workforce community, and good size factories with efficient cane delivery systems. These are a combined set of assets that are extremely rare around the sugar world. I am positive that if we work together as an industry, focus on our core business and do it well again, then we can continue to be a competitive and sustainable business into the future, not just for us now but also for the next generation in the Mackay region.

Financial Snapshot

The year has delivered a cash surplus of \$10.046 million, a \$13.517 million reduction in debt resulting in a reduction of cash and cash equivalents of \$3.471 million. The Group incurred a loss of \$20.427 million and an underlying operating loss of \$14.617 million. This follows the impacts of cyclone Debbie during the cane growing period causing lower crop yields and a significant decrease in cane tonnages. Despite slightly improved factory availability, unfavourable weather conditions during the 2017 crushing period resulted in an extended crushing season and stand over cane for the second year. The financial results are largely driven by a decrease in sugar revenue due to lower raw sugar prices and reduced cane tonnages processed through the mills, offset by slightly improved PRS/CCS levels. The underlying operating loss of \$14.617 million excludes the loss on revaluation of milling assets of \$2.933 million, the loss on impairment of the Sugar Australia investment of \$6.900 million and insurance recoveries related to past events of \$4.023 million.

Consolidated financial accounts

The financial accounts presented in this report are the consolidated financial accounts of Mackay Sugar Limited Group. Mackay Sugar has two wholly owned active subsidiaries - Queensland Commodity Services Pty Ltd (QCS) and Mackay Commodity Services Pty Ltd (MCS) which are required to be included in the financial statements presented by Mackay Sugar. MCS was sold during the year on 29 November 2017, and accordingly, the MCS operations have only been included for the six month period up to this date. The discussion on the financial statements set out below is in relation to the Group.

Significant items during the year which affected the financial accounts

Revaluation of milling assets

The Directors determined to revalue the Mackay and Mossman milling assets during the financial year which resulted in a reduction in the value of property, plant and equipment of \$2.933 million. This amount was required to be treated as a loss in the statement of profit or loss for the year. This write-down of milling assets was a book entry only and had no effect on the cash flow of the Company.

Impairment of the Sugar Australia investment

Due to reductions in volumes and margins in the domestic refined sugar market, the Directors determined to impair (revalue) the Sugar Australia investment which resulted in a reduction in the value of the 'Investments accounted for using the equity method' of \$6.900 million. This amount was required to be treated as a loss in the statement of profit or loss for the year. This write-down of equity investment assets has no effect on the cash flow of the Company.

Marian Mill insurable events

The Company received further insurance payments during the year to indemnify the Group as a result of the outgoings incurred in prior years from damage to the Marian No.1 boiler and 5MW turbine alternator. The insurance claims for the repairs and replacement equipment was received in prior financial years. The insurance proceeds received during the 2018 financial year of \$4.023 million related to a business interruption (loss of profits) claim and has been recognised as revenue in the statement of profit or loss for the year.

Statement of profit or loss

The net profit before income tax for the year ended 31 May 2018 was a loss of \$20.427 million; which represents an improvement of \$12.987 million on the \$33.414 million loss in the 2017 financial year. As previously stated, the reported loss includes the impairment of the Sugar Australia investment of \$6.900 million, the revaluation write-down of milling assets of \$2.933 million, and insurance recoveries related to past events at Marian Mill of \$4.023 million. Excluding these extraordinary items, the operating results for the Company would have been a loss of \$14.617 million.

The crop for the 2018 financial year (2017 season) of 6.151 million tonnes (Mt) was down by 10.4 per cent on the 2016 season crop (6.863Mt). The decrease in cane tonnage was offset by an increase in the sugar content, which resulted in an overall 7.1 per cent decrease in sugar production. The average sugar price for the financial year was \$469.82 per tonne (/t) IPS sugar compared with the 2016 season price of \$487.48/t IPS sugar. The combination of the decreased sugar production and the \$17.66/t decrease in the sugar price resulted in a reduction of \$41.502 million in sugar revenue.

Molasses production for the 2017 season decreased by 9.0 per cent as a result of the lower crop tonnage and a 2.0 per cent increase in the molasses yield compared to the 2016 season. The molasses price for the 2017 season decreased by 9.4 per cent. The net effect was a reduction in molasses revenue of \$4.060 million compared to the previous year.

Electricity sales increased by 1.4 per cent on the previous financial year to \$27.402 million. This was primarily due to an increase in export electricity, offset by lower LGC revenue as a result of the reduced crop and lower LGC prices. Other operating revenue decreased by \$4.802 million mainly due to the receipt of less insurance proceeds compared to the previous financial year of \$4.621 million. The net effect of the combined revenue items resulted in a decrease in gross profit of \$20.064 million or 9.2 per cent when compared to the 2017 financial year.

Maintenance expenses for the 2018 financial year were \$50.699 million compared to \$48.383 million incurred in the previous financial year. The \$2.316 million increase in expenditure was primarily due to additional funding allocated for the improvement of crushing rates, recovery rates, and reliability in milling operations. Operating expenses were \$84.510 million compared to \$90.797 million incurred in the previous year. The \$6.287 million decrease in this expenditure was mainly due to the lower crop and reduced season length. Administration expenses, which include all operational staff salaries, increased by \$0.929 million to \$45.385 million, primarily due to additional costs in insurance, legal fees and consultancy fees associated with the recapitalisation project.

Distribution and marketing expenses increased by \$1.800 million to \$8.339 million compared to the previous financial year. The increase was mainly due to additional QCS overheads, sugar analysis and legal costs of \$0.827 million and increased storage expenses of \$1.067 million due to higher sugar tonnage in relation to export contracts.

The profit from equity accounted investments of \$10.429 million represents the Company's share of profit in its Sugar Australia and New Zealand Sugar refinery investments. This increased by \$2.523 million compared to the previous year due to lower depreciation as a result of the impairment of the Sugar Australia investment and the associated write-down of their property, plant and equipment in the previous financial year.

Net finance costs decreased by \$0.069 million on the previous year as a result of slightly decreased in-season funding requirements.

Financial Snapshot (continued)

Depreciation decreased by \$0.384 million to \$16.602 million for the 2018 financial year. This result was mainly attributable to the decreased cane tonnages processed through the mills, which is the basis for calculating the depreciation of milling plant and equipment.

Other expenses decreased by \$3.789 million on the previous year to \$0.277 million. The reduction was mainly due to the write-offs on the Marian No.1 Boiler assets in the previous financial year.

Statement of financial position

Total equity decreased by \$11.290 million on the previous year to \$204.989 million as at 31 May 2018. This was due to the loss for the year of \$20.427 million offset by an increase in reserves of \$9.137 million. The reserve movements reflect an increase in the hedge reserve of \$9.284 million, a decrease in the foreign currency translation reserve of \$1.032 million, and an increase in the financial asset revaluation reserve of \$0.885 million.

The hedge reserve of \$22.158 million reflects the mark-to-market surplus in the value of the Group's hedging positions as at the year-end date. It is a requirement that the sugar pricing, diesel fuel pricing, foreign exchange contracts, and interest rate hedging contracts be valued and taken up in the financial accounts.

The foreign currency translation reserve reflects the effect of the movement in exchange rates on the value of our investments in foreign associated companies (New Zealand Sugar Company and Oriana Shipping Company).

Net debt decreased by \$9.239 million to \$178.862 million, primarily due to positive operating cash flows allowing the funding of term debt repayments and unsecured note withdrawals. The net debt is comprised of bank term debt loans of \$100 million, bank seasonal financing loans of \$5 million, finance lease liabilities of \$1.072 million, fixed-rate medium-term unsecured notes (bonds) of \$50 million, interest bearing deposits of \$0.242 million, selected-term unsecured notes of \$9.868 million and the STL subscription liability of \$27.473 million, offset by cash of \$14.793 million.

Receivables decreased by \$11.881 million to \$22.261 million, mainly due to seasonal timing factors associated with sugar, molasses and electricity revenue receivables. Payables decreased by \$17.727 million to \$45.055 million, primarily due to the timing of cane payments.

A liability for the deferred cane payments of \$9.939 million has been recognised as at 31 May 2018 (refer note 11 of the financial statements). The Directors' have determined that, based on the terms and conditions under the cane supply and processing agreement, the amounts deferred are to be accounted for as a liability, due to their potential repayment under the trigger events included in the agreement.

The long term bank loans with Rabo and NAB of \$100.0 million and the FIIG Securities Bond debt of \$50.0 million, included in interest bearing liabilities, continue to be recognised as current liabilities at 31 May 2018 as these loans are due to expire on 2nd March 2019 and 5th April 2019 respectively.

The Group's current ratio, measured as current assets to current liabilities is 29.5% compared to last year of 31.1%. This measure is impacted by the inclusion of bank debt and FIIG bond as current liabilities. The level of this ratio highlights the liquidity risk and the financial dependency on the Group's funding facilities. The Group's gearing ratio, net debt to net debt and equity, is 46.6% compared to 46.5% for the 2017 financial year. This ratio highlights the level of external debt compared to shareholder's equity. The debt to equity ratio which compares total liabilities to shareholders' equity is 1.39 compared to 1.42 for last year.

Statement of cash flows

The net cash flow from operating activities decreased by \$23.648 million to a cash surplus for the year of \$19.996 million. This was mainly due to the decrease in sugar sales as a result of the lower tonnes of sugar produced and sold, combined with the lower sugar price; and the timing of sugar sales and cane payments. Capital expenditure decreased by \$10.479 million to \$12.281 million. The majority of the capital expenditure related to stay-in-business capital. The Sugar Australia and New Zealand investments returned \$1.957 million in excess of their profits, in cash during the year.

Movements from financing activities were a combination of the following:

- repayment of borrowings of \$5.624 million;
- lease liability payments of \$0.294 million;
- a decrease in loans to growers of \$0.479 million; and
- a decrease in selected-term unsecured notes of \$8.048 million.

As a result of the above cash movements, cash on hand decreased by \$3.471 million to \$14.793 million.



Cane Supply

Mackay

The 2017 season was challenging in a number of areas. Pre-crush preparations were hampered by Tropical Cyclone Debbie, which crossed the Queensland coastline over Airlie Beach near Mackay on 28 March. The remnants of Debbie brought heavy rainfalls across the region and this resulted in flooding of a significant portion of the Mackay cane supply area. The flood damage to track and sidings added a lot of pressure for the rail infrastructure department. Day and night shift maintenance crews repaired the track in time for the commencement of harvesting operations.

The crop was severely impacted by the cyclone and required field staff to perform a full crop re-estimate. Early estimates of the crop damage were in the order of 500,000 tonnes reduction in crop size. A concentrated effort by all Cane Supply staff and operations planning personnel was required to ensure crush readiness. The efforts by all are greatly appreciated and made a difficult situation manageable.

The crushing season ended with an early onset to the wet season. Harvesting operations were hampered by wet conditions that began around the second week of November with poor drying conditions and continued rainfall for the remainder of the month. The total rainfall for November measured at Pleystowe was 251mm compared to the November average rainfall figure of 70mm. The outcome of this above average rainfall was the decision to cease crushing operations, leaving behind an estimated 275,000 tonnes of cane. This decision was not made lightly as it is always in the best interest of both growers and millers to harvest the full crop. Unfortunately this was not possible for the 2017 crushing season.

In terms of health, safety and environment the Rolling Stock department achieved four years lost time injury free and this was a great result. Unfortunately the transport operations department experienced a tragic accident resulting in a fatality. Our thoughts and prayers remain with family, loved ones, friends and colleagues as we continue to work through the investigation process with the Department of Workplace Health and Safety.

A customer service metric used is the cane rail sidings radio communications protocol compliance monitoring which incorporates safety and efficiency elements. Our compliance rate for the 2017 season was 96%, another well embedded practice.

The 2017 season proved very difficult in terms of harvest management due to the early rain. Managing harvest equity between our 180 plus harvest groups was very challenging. A concerted effort was made to align harvest groups prior to the end of the season.

Longer-term projects that have progressed include a review of the operational aspects of the Cane Supply and Processing Agreement and the Value Chain Project focused on moving towards harvest best practice.

Crop performance

The 2017 season resulted in a total of 4.97M tonnes (2016 season: 5.6M tonnes), of cane crushed from a harvested area of 66,942 hectares (2016 season: 63,083 hectares). The area available for harvest was 71,053 hectares with 4,110 hectares not harvested due to the end of the season being terminated early following the rain in November. This resulted in an average yield of 74.3 t/hectare. The 2016 season cut out at 13.8 t/hectare higher at 88.1 t/hectare. The average sugar content (PRS) for the 2017 season was 13.43 units, which was an increase of 0.47 units on the 2016 season figure of 12.96 units. The average sugar yield of 9.97 t/hectare was up (0.17 t/hectare) on the 2016 season figure of 9.80t/hectare.

Mossman

Overall the crop of 1.18 million tonnes was down 10% compared to the 2016 season, primarily as a result of a lower crop yield in the coastal supply area. Coastal crop yield reduced from a high of 91 tonnes cane per hectare in the previous season to 77 tonnes cane per hectare, a number more typical of the long term average. Yield for the Tableland crop was up by 1% to 112 tonnes cane per hectare. Overall area under cane was down 2.5% to 12,762 hectares.

Offsetting the reduction in yield in the coastal area was a significant increase in CCS which averaged 13.2 and was 1.7 units higher than the previous season for cane crushed at the Mossman Mill.

Milling

Farleigh Mill

Farleigh mill processed 1.537 million tonnes of cane at a rate of 463 tph over a total of 25.5 weeks. This included 9.5 days of lost time from wet weather and cane supply issues. The factory produced a total of 197,175 tonnes of IPS sugar and sugar quality was reasonable at 51.9% compliance with the premium quality standard under the QSL RSSA sugar bonus scheme.

The crushing rate was down compared to the previous year due to two main factors. The CCS was higher than the 2016 season, and there were issues with the boiler station which limited steam capacity.

There was a slight improvement in mill availability compared to the previous year with an average of 81.8% for the season. Whilst this is still well below the desired performance, an analysis showed that the baseline reliability was relatively good but was impacted by a few very large downtime events. The most significant of these was the failure of the No 4 boiler superheater loops. Corrective actions to address all of these issues were completed prior to the 2018 season.

A number of other potential availability issues were also addressed in the 2017/18 maintenance period with major refurbishment and upgrade works completed. The milling train was completely overhauled with a full refurbishment of all milling units plus the prepared cane elevator, the shredder turbine and rotor, No 2 intermediate carrier and the rotary juice screen system. One of the main bagasse gantries was also completely restored. Planned inspections also revealed issues with electrical protection systems and as a result an upgrade program commenced with the most critical works completed in time for the 2018 season.

It was disappointing to see a decline in the 2017 processing efficiency compared to the previous year with a drop in sugar recovery to 85.82. Once again there were several factors which contributed to this result. The cane purity was well under budget and this had an impact on molasses loss with a higher amount of molasses produced. The condition of some of the recovery plant items also added to the loss. Some of these were addressed in the 2017/18 maintenance season where funds allowed.

Marian Mill

Marian mill crushed 1.952 million tonnes of cane throughout the 26.1 weeks season at a crushing rate of 659 tonnes per hour. Marian mill produced 251,696 tonnes IPS sugar for the season.

The crushing season was terminated on 8 December 2017 due to wet weather conditions creating insufficient supply which led to standover cane for the second year in a row at Marian. Outside weather related stops accounted for 384 hours of factory downtime (16 days) of which 266 hours lost (11 days) occurred from the week ending 15 October 2017. Cane quality deteriorated significantly late in the season after the rain with higher mud loadings and batches of “sausage” cane being presented for processing which severely affected operations.

Factory availability for the 2017 season improved to 74% from a very poor 64% the previous year but was still not satisfactory. Modifications to pan vacuum condenser rain trays, new No 6 pan condenser as well as the installation of new vacuum pumps during the season all contributed to the improvement. Additional work has been undertaken during the 2018 maintenance period to further improve water balance issues which included a new No 5 pan condenser. Major work was also conducted on the evaporators to improve condensate contamination issues as well as vacuum leaks. A replacement bottom cone was installed on 2B evaporator along with body stiffening rings placed on two other evaporators to improve structural integrity of evaporator vessels.

A major refurbishment of No 2 bagasse conveyor along with major work undertaken on the floor of the dry sugar conveyor crossing the Mackay - Eungella road has added to these units structural integrity for the 2018 season. Mud losses for the 2017 season were quite high with some rescreening of filters undertaken during the 2017 crush to reduce losses. Further work was completed during the maintenance season to fully rescreen No 1 filter and upgrade scrapers along with the repair of some internal pipework on No 3 filter to improve mud losses for the 2018 season.

The refurbished central control room for the 2017 season facilitated better communication between boiler and evaporator operators enabling better operations for the season. During the early part of the 2017 season No 1 boiler, after being refurbished suffered from some control issues. This was able to be rectified quickly with assistance from an external consultant.

Milling (continued)

Racecourse Mill

Racecourse mill processed 1.484 million tonnes of cane for the 2017 crushing season at an average crushing rate of 437 tonnes of cane per hour in a period of 25.4 weeks. This was a reduction on the 2016 crushing season of 1.697 million tonnes crushed at an average crushing rate of 450 tonnes of cane per hour. The factory produced a total of 190,851 tonnes of IPS sugar for the season.

The reduction in crushing rate was mainly attributed to the performance of the evaporator stage as a result of the condition of the evaporation plant. A targeted program to address vessel leaks and improve condensate removal in the later stages of the season delivered improved performance.

Outside stops, associated with wet weather had a significant impact from early October. The last eight weeks of crushing saw a total of 9.5 days lost which had a significant impact on both cane purity and PRS.

Factory availability was disappointing for the 2017 season at 84.1% which was 2.9% lower than the target availability of 87%.

Major stoppages for the season included 76 hours to replace the damaged shredder turbine rotor blading, and 25 hours to undertake repairs to the cane apron conveyor at the tippler.

The refurbishment of the cane apron conveyor was completed during the 2017/18 maintenance period to eliminate ongoing stoppages in this area.

Mossman Mill

Mossman mill began the season on Monday 5 June and crushed a total of 875,837 tonnes over a 23 week season. An additional 302,643 tonnes was toll crushed at the MSF Sugar owned Arriga mill over 27 weeks.

Sugar production was up by 10% against the previous season. Mossman produced 111,143 tonnes of Brand 1, Japanese Specification Brand 1 (JB1) and Japanese specification (JA) raw sugar for sale through Queensland Sugar Limited. Japanese specification sugar was the predominate product accounting for over 87% of sugar produced.

Factory availability reduced by 3% compared to the 2016 season, finishing at 79%. It was particularly impacted by multiple tube failures on the JTA boiler, and boiler control system issues resulting from mandated changes to boiler protection systems.

Increased maintenance focus at the boiler and feeding stations prior to the 2017 season targeted high lost time areas.

Installation of a fractionating system to improve efficiency of the B&W boiler dust collector system was completed prior to the season. This was the last in a series of major investments over recent years to replace and upgrade the dust collector systems on the two boilers. Independent testing during the season produced good results with boiler stack emission levels falling comfortably within the site environmental licence requirements for the first time in a number of years.

Marketing

Outcomes for year ended 31 May 2018

- Weighted average sugar price for both Mackay and Mossman region of A\$469.82 per IPS tonne achieved (this number represents the result of all pricing including long term banded pricing completed by both miller and grower, QSL in-season pricing, Queensland Commodity Services (QCS) in-season pricing, and the shared pool results of both QSL and QCS).
- Sold 350,266 actual tonnes of raw sugar to QSL (2016 season: 449,701)
- Sold 420,000 actual tonnes to Sugar Australia (2016 season: 380,002 tonnes).
- Molasses Revenue Pool Price of A\$110.12 per tonne (2016 season A\$121.59 per tonne).
- QCS successfully completed the fourth season under its Miller Economic Interest (MEI) marketing agreement with Alvean Sugar covering 118,287 actual tonnes of raw sugar being marketed into the Far East at a guaranteed premium significantly above QSL returns.

Sugar Markets

Sugar prices experienced significant downward movement over the past twelve months, ranging between 15.45c/lb and 10.86c/lb during the year, and finishing at 12.79c/lb on 31 May 2018.

It has been a heavy transition from global shortfalls to surplus stocks over the past 12 months. Sugar prices have fallen below the cost of production for producers across the regions and remain likely to stay there in the near term.

A return to surplus stocks would suggest we will see a downturn in output for many of the producing regions. However, this is unlikely in some regions as some sugar producing regions, namely India and Pakistan have moved to support further supply, under local agricultural subsidy schemes. In the current environment of incentivised sugar production this subsidised production is severely impacting global sugar prices.

As in the previous seasons, Mackay Sugar sold 100 percent of its raw sugar for the 2017 season to QCS under the Commodity Marketing Agreement.

QCS in turn sold raw sugar domestically to the Sugar Australia Joint Venture (Sugar Australia), and for export via QSL. A total of 68 percent of the sugar sourced in the Mackay region was sold to Sugar Australia and the remaining 32 percent was sold via QSL. (2016 season: 56 percent and 44 percent respectively). Sales to Sugar Australia were destined to be refined at Racecourse refinery. Of MSL's Mossman region raw sugar production, QCS sold 100 percent via QSL (2017 season: 100 percent). The sugar sold via QSL in both Mackay and Mossman regions includes Mackay Sugar's Miller Economic Interest (MEI) sugar, which was physically priced and marketed by QCS in conjunction with Alvean Sugar, covering 118,287 actual tonnes, or 34 per cent of all sugar sold via QSL.

The weighted average sugar price achieved in the 2017 season across both the Mackay and Mossman regions was A\$469.82 per IPS tonne. This is a weighted average price of all pricing completed by growers, QSL, and QCS and represents the combined decisions of these parties during the 2017 season and previous seasons.

QCS Performance

QCS completed its fourth full financial year in May 2018, posting pricing outcomes that were significantly above its targets. From a pricing perspective, QCS took an aggressive view on the markets at the start of the year as the global sugar market moved into a period of significant surpluses while managing pricing within Board policies. This strategy delivered in-season pricing that was significantly above QSL and other GEI marketers in Australia.

QCS completed its fourth year of the marketing agreement with Alvean. The 2017 season saw the shipment of 118,287 actual tonnes of sugar again sold at a premium over and above the premium achieved by QSL.

In early 2018, QCS again negotiated with Sugar Australia to supply their 2018 season requirements for the refinery at Racecourse. Volumes were decreased from 420,000 actual tonnes for the 2017 season to 315,000 tonnes in the 2018 season.

During the 2017 season, QCS again worked successfully with Alvean and QSL to market Japanese grade sugar made from Mackay mills in the Mackay district. This resulted in 202,271 actual tonnes of sugar being successfully produced and marketed to Japan from Mackay Sugar's mills in Mackay and Mossman.

Environment

Mackay Sugar (MSL) has a strong focus on environmental protection and sustainability, and ensuring that its operations do not adversely impact the environment. MSL's activities are governed by legislative obligations and community expectations. We utilise our Environmental Management System to ensure compliance and to encourage continuous improvement leading to better environmental performance.

Farleigh Mill

Farleigh mill completed all of the necessary works identified in the Transitional Environmental Program (TEP) issued by the Department of Environment and Science, resulting in significant reductions in particulate concentrations released during YEM17. The three year TEP was finalised by the department on 30 November 2017, acknowledging that MSL had satisfied all requirements of the program.

Mossman Mill

Following the issue of a Penalty Infringement Notice in December 2016, for failing to meet a condition of an existing stack emission under the TEP, the Department of Environment and Science made a forced amendment to the Mossman mill environmental authority. The amendment included conditions pertaining to nuisance dust and increased the requirement to measure particulate emissions once every crushing season, rather than every second year. Mossman mill is now within licence limits for stack emissions.

Mossman mill recorded a total of three Biochemical Oxygen Demand exceedances during the 2017 crushing season. All exceedances were notified to the Department of Environment and Science as a non-compliance. MSL was issued with a formal warning in response to the exceedances. An Environmental Evaluation required MSL to identify the source of contamination within release waters and the final investigation report was submitted to the department on 15 February 2018. A request for further information was issued to MSL and a further assessment is due to be submitted before 3 September 2018.

Racecourse Mill

The department issued MSL with a notice to conduct an Environmental Evaluation, following a history of community complaints regarding odour at the Racecourse mill effluent treatment ponds. The investigation requires MSL to conduct a program of odour monitoring at the ponds and at nearby sensitive receptors, during crushing and non-crushing operations. The final report is due for submission before 31 January 2019 and environmental consultants have been engaged to assist with the investigation.

The Department of Environment and Science issued Racecourse mill with a Penalty Infringement Notice in October 2017 after MSL reported an accidental release of sugar milling effluent into Rocky Creek, which occurred during pipe repair maintenance. As a business we have worked to improve our contractor management processes to ensure that similar incidents can be avoided in the future. Monitoring of the equipment has increased in frequency.



Marian Mill

MSL received a notice to appear in Mackay Magistrates court, after being charged with four offences as a result of an effluent release at Sandy Creek in September 2016. MSL intends to enter a guilty plea to two reduced charges for contravention of the environmental licence. At a subsequent court hearing MSL was fined \$160,000 plus costs for this breach with no conviction recorded.

Environmental Index

We have continued to use the Environmental Index to measure the effectiveness of the Mackay Sugar Environmental Management System and overall environmental performance of the business. The initial target score of 1.00 was reduced to 0.80 following the review of the 2017 financial year score and the first 12 months of its application. We ended the 2018 financial year with a result of 0.87, despite a marginal increase as a result of non-notifiable incidents from the previous year. All other indicators measured under the index improved from the 2017 financial year results, with significantly increased hazard reporting across all sites contributing to a much improved score.

Environmental Management System

Our Environmental Management System continues to improve. Monthly compliance inspections are conducted at each site, and the standards across all sites demonstrate progressive improvement. The Department of Environment and Science continues to proactively assess the compliance of MSL's operations through regular site inspections and MSL maintains a strong collaborative relationship with the Department across all areas of the business.

The Board Health, Safety and Environment Committee closely monitors performance at all sites with meetings every three months, rotating around the sites and interacting with management at the sites on these issues.

As we endeavour to become a sustainable business, it is imperative that we continue to empower all employees and service providers to own environmental management; to continually risk assess and to proactively report hazards and incidents in the workplace. Environmental Management will remain a strong focus for improvement, including a reduction in water usage and identifying efficiency opportunities, operating within our Environmental Authorities and maintaining our Environmental Management System to ISO 14001.

Employees

We have an extensive workforce that is employed in a variety of management, technical, trade, operator and administrative roles across a range of business units who are required to be skilled, engaged and motivated to work safely to achieve business objectives. The structure of our organisation includes: Cane Supply and Logistics, Milling Operations, Projects, Asset Care and Central Services.

As at 31 May 2018, 859 employees were employed to work across our four main locations (Farleigh, Marian, Racecourse and Mossman) for the 2018 crushing season. Given the staggered start to the crushing season, additional seasonal employees had yet to be engaged for the 2018 crushing season. At the peak of the 2017 crushing season, 905 people were employed, 351 of whom filled seasonal roles.

Our salaried workforce comprises 176 personnel in a variety of management, planning, engineering, procurement, information technology, human resources, accounting and administrative roles, and 369 permanent wages personnel in a variety of trade, technical and processing roles. Workforce planning and organisational changes continue to focus on delivering a workforce with the capabilities and capacity to deliver the required business outcomes.

Valuing Diversity and Inclusion

We provide employment opportunities for a diverse range of people, relying on the criteria of 'best person for the job'. Successful compliance with the completion and submission of the Workplace Gender Equality Report attests to our full compliance in that aspect of employment law.

For the twelve month reporting period ending May 2018, females accounted for approximately 21% of our entire workforce, a ratio which has increased by 3% since last year. Female employee numbers typically increase during our crushing season, with women making up 51% of the seasonal workforce across both cane supply and factory operations during the crushing season.

Reward and Recognition Program

The Reward and Recognition program continues to be well supported, with more than 14 employees nominating their colleagues for awards in the various categories. Since June 2017, we have presented nine awards to our employees for Innovation, Initiative and Environment and Safety Achievements. Of notable mention is the Health and Safety Achiever award presented to the Cane Supply Rolling Stock department, which achieved a milestone of four years lost time injury free. This achievement acknowledges the safe working practices of the workgroup in a variety of workplace situations; in the workshop, in the field, working on heavy equipment, 24 hour operations and loco, bin and vehicle repair and maintenance, and recognised the group's ongoing commitment, discipline and dedication towards zero harm.

Apprentice Awards

Our annual Apprentice Awards were held in December 2017 in Mackay and Mossman, formally recognising the achievements of our apprentices. Our 2017 apprentice award recipients were:

Mackay

Apprentice of the Year (Frank Marchetti Award)	Dean Shepherd
Best Fitting and Turning Apprentice	Craig Dunn
Best Electrical Apprentice	Adam Wilson
Best Boilermaking Apprentice	Jackson Bird

Mossman

Apprentice of the Year	Zach Stewart
Best Fitting and Turning Apprentice	Dale Santarossa
Best Fitting and Turning Apprentice	Jayden McLean
Best Electrical Apprentice	Ryan Melchert
Best Boilermaking Apprentice	Casey Spencer
Best Boilermaking Apprentice	Zach Stewart



Building our future workforce

Currently Mackay Sugar has 37 apprentices in total. Apprenticeships remain offered in four trades: electrical, instrumentation, boilermaking and fitting. We also offer a cadetship in drafting. Our best people are grown from within, therefore we continue to work on succession planning and identify high potential employees suitable for a successful career path within the business. Training and development opportunities as well as in-house mentors are also recognised to ensure our employees are equipped with the skills and knowledge to perform their job well.

Tertiary Study Assistance Program

Our employees are encouraged to participate in tertiary education in nationally recognised courses to enhance their self-development and qualifications that benefit both the employee and our business. We provide selected employees with financial assistance to undertake study so that tertiary education is more accessible to our workforce. We currently have 11 employees completing tertiary education via this program.

Work experience

Additionally during the 2018 financial year Mackay Sugar hosted 16 work experience students from secondary schools. As part of adding greater emphasis to encouraging students to think of Mackay Sugar for a career, the work experience program is promoted by management so that schools understand the full range of work experience options available. We also attend the local high schools to conduct mock interviews to support senior students in getting 'job' ready.

Fostering Industrial Harmony

We actively work with the three unions that represent our employees. These unions are:

- The Electrical Trades Union (ETU);
- The Australian Manufacturing Workers' Union (AMWU); and
- The Australian Workers' Union (AWU).

The organisers from each union are also representatives on the respective Enterprise Agreement Negotiating Teams.

Health and Safety

Work Health and Safety (WHS) is a top priority for Mackay Sugar and is managed in accordance with the statutory provisions of the *Work Health and Safety Act 2011* (the Act) and supported by a range of work health and safety and return to work policies and initiatives. The Health and Safety team provide guidance and support to the business units in implementing the requirements under the legislation.

Our safety performance was well below expectations for the year. Overall, we had an increase in recordable injuries, predominantly through the crushing months of the year. We completed the year with a Lost Time Injury Frequency Rate of 11.75 (YEM2017: 3.44). Our Total Reportable Injury Frequency Rate performance also increased to 58.77 (YEM2017: 25.43). Tragically, one of our colleagues died in October 2017 during shunting operations at our Mirani West 2 Cane Rail Siding. Investigations are still continuing to determine the cause of the fatality and Mackay Sugar continues to cooperate with the Queensland Police Service and WHS in relation to the incident.

The fatality is a tragic reminder that safety must come first in everything we do. We will continue to strive to make sure our people prioritise safety in their day-to-day activities. We have made a concerted effort to focus on:

- reinforcement that safety comes before production;
- enhancement of our investigation process and root-cause analysis and share learnings;
- allowance for quality time to be spent engaging with our workforce; and
- ensuring that training is adequate and that appropriate discipline applies around compliance with standards.

The Safety Index is a proactive weighted index measurement focussed on lead indicators designed to measure the effectiveness of key proactive elements of the Safety and Health Management System. The index is designed to promote a culture of ownership and accountability for safety and comprises three key elements: Information and Communication; Implementation and Monitoring; and, Improvement.

Elements are measured against attendance at toolbox talks, job observations, scheduled training, HSE committee meetings, incident records and reporting timeframes. In recent years, we have consistently exceeded the Safety Index target of 1.00, however given our reduced safety performance and increase in the number of incidents throughout the year, the average safety index result was 0.83.

Our health and wellbeing process has continued throughout the year. We continue to identify opportunities to enhance our health and wellbeing at work and our initiatives include influenza vaccinations offered onsite to staff; health alerts, Workplace Quit Smoking Program and Employee Wellbeing Medicals.

Mackay Sugar was provided with a Complaint and Summons by Workplace Health and Safety Queensland in May 2016 relating to an alleged breach of the *Work Health and Safety Act 2011 (Qld)*. The complaint relates to an incident which occurred on 25 September 2014 whilst an employee was operating the tippler at our Mossman mill.

We progressed with negotiating an Enforceable Undertaking and the document was submitted to the Office of Industrial Relations in November 2017 with the support of the Enforceable Undertaking unit, however a result is still pending.

Our management team met with WHS in February 2018 to discuss our safety performance during 2017. We are working with WHS on a safety improvement program aimed at injury prevention and safety outcomes.

The program is called IPaM (Injury Prevention and Management) and with it comes a dedicated WHS Advisor to work with the business for up to two years .

This is a positive proactive program between WHS and Mackay Sugar to reduce risk and injuries for our employees and the external parties interacting with our operations



Board of Directors

The names and profiles of the Directors in office from 1 June 2017 to the date of this report are shown below. A record of attendance at board meetings during the year under review is set out on page 34.



Mark Day

BAppSC (Mathematics)

Executive Chairman and CEO- Non Grower Director

Mark was appointed to the Board in May 2017 and was elected Chairman in November 2017.

Mark recently completed three and a half years in Brazil as Operations Director for eight sugar cane factories owned by Bunge Brazil crushing 20 million tonnes of cane producing sugar, ethanol and electricity. Bunge is one of Brazil's largest cane processors.

Prior to that Mark had an extensive career with CSR/Wilmar in sugar, managing CSR's cane sugar businesses as Executive General Manager for six years and two years in Indonesia with Wilmar. At CSR he commenced as a shift supervisor in the Mackay region in 1980 and worked through several regions in the Queensland sugar industry with CSR.

He has served as a Director on the Board of STL, the Bureau of Sugar Experiment Stations, Sugar Research Institute and AMT and was also a Director and Chairman of Australian Sugar Milling Council for a period. He has a degree in Applied Mathematics and has attended Executive programs at Wharton Business School.



Paul Manning

BEng (Mech), Dip Ag. GAICD

Deputy Chairman – Grower Director

Paul is a third generation cane farmer and was elected to the Board as a Grower Director in October 2014. Paul returned to cane farming in 2010 after working as a professional engineer for over 20 years, predominantly in the West Australian Iron Ore mining industry. During this period he worked in a variety of maintenance, major project management and engineering management roles for BHP Billiton Iron Ore and in a project role for Sinclair Knight Merz. Paul is a Graduate of the Australian Institute of Company Directors.

Committee Memberships

Chairman – Health, Safety and Environment Committee

Member – Audit and Finance Committee

Member – Remuneration and Nominations Committee



Lee Blackburn

GAICD

Grower Director

Lee was appointed as a Grower Director in October 2014. He has been a grower for more than 20 years and has been managing the family farm and harvesting business since 2002. Lee is the Chairman of the Eton Irrigation Scheme Pty Ltd, a Director of Queensland Commodity Services, a former Director of Mackay Canegrowers Limited and former member of the Canegrowers Mackay Area Committee. Lee is a Graduate of the Australian Institute of Company Directors.



Lawrence Bugeja

GAICD

Grower Director

Lawrence was appointed as a Grower Director in October 2013. He has been a cane farmer for more than 36 years and has been managing the family farm and harvesting business since 1987. He is a Director of Mackay Area Productivity Services and of the Deputy Chairman of the Pioneer Valley Water Board. He is a former Director of both Mackay Canegrowers Limited and Queensland Canegrowers Organisation Limited and was also a member of the Marian Mill Suppliers Committee and the Canegrowers Mackay Area Committee. Lawrence is a Graduate of the Australian Institute of Company Directors.

Committee Membership

Member – Health, Safety and Environment Committee



Andrew Cappello

MAICD

Grower Director

Andrew has been an elected Grower Director since November 2001 and has been a cane producer for 35 years. He acted as Chairman from February 2010 until November 2017. Andrew is also Chairman of the Pioneer Valley Water Co-operative.

He is Deputy Chairman of the Australian Sugar Milling Council, Director of Pioneer Valley Water Mutual, and the Queensland Co-operative Federation, an alternate Director of Sugar Australia Pty Limited and New Zealand Sugar Company, a Mackay Sugar representative on the Board of Mackay Area Productivity Services Pty Limited. He is also a former Director of Sugar Terminals Limited and the Australian National Committee for Irrigation and Drainage.

Committee Membership

Member – Remuneration and Nominations Committee

Board of Directors (continued)



Richard Findlay

Non-Grower Director

Richard has an extensive background in agribusiness and food manufacturing in Australia and New Zealand having held senior executive roles at Goodman Fielder, George Weston Foods, Manassen and Sunbeam Foods Group.

As Chief Executive Officer of the unlisted public company Sunbeam Foods Group (formally the Mildura Co-operative Fruit Company) he was involved in its sale to private equity and became Chief Operating Officer/Director of the larger food group Manassen Foods. He is currently a Director of a private Tasmanian food group.

Committee Membership

Chairman – Remuneration and Nominations Committee

Member – Audit and Finance Committee



Jeffrey Grech

MAICD

Grower Director

Jeffrey was appointed as a Grower Director in July 2017. He has been a cane farmer for more than 30 years and has been managing the family farming operations and harvesting business for more than 25 years. Jeffrey is a Director of Mackay Area Productivity Services.

Committee Membership

Member – Health, Safety and Environment Committee.



Maurice Maughan

FCA FTIA JP (C.dec)

Non Grower Director

Maurice became a Non-Grower Director of Mackay Sugar in June 2012. Prior to this he was a Director of Mossman Sugar Company Limited since 2007. In 2006, after 31 years, he retired from the international accounting firm KPMG as a partner. Maurice was responsible for providing advice to a number of companies including those in the Queensland sugar industry. He has extensive business experience as a result of his time with KPMG and remains actively involved as a Director or advisor to several companies. Maurice is a Director of Queensland Commodity Services and was appointed Chairman of the LMA Interim Board for the Bundaberg Irrigation Scheme in June 2013.

Committee Membership

Chairman – Audit and Finance Committee

Management



David Said

BBus FCPA

Chief Financial Officer

David was appointed as Chief Financial Officer from 16 January 2017 having previously held the position of Manager - Business Services. He is responsible for Business Services, Supply and Procurement.

David and his team perform the financial operations for the group ensuring statutory and contracted obligations are met. They provide the necessary financial reporting to internal and external stakeholders as well as dealing with financial institutions to manage daily transactions and borrowings, ensuring all compliance requirements are satisfied. They also source, negotiate, acquire and supply the goods and services required by the business.

David has over 25 years' experience with Mackay Sugar, commencing as a Graduate Accountant at Corporate Office in 1990. He moved to Pleystowe Mill in 1993 to perform various accounting roles before transferring to the Business Service Centre at Farleigh Mill in 2001 as Senior Accountant.

David is a Director of Pioneer Valley Water Co-operative Limited.



Peter Gill

BEc LLB GDipTax FCPA

General Manager Commercial and Legal

Peter was appointed General Manager Commercial and Legal on 16 January 2017, having previously been the Chief Financial Officer since 31 May 2013. Peter returned to Mackay Sugar in August 2012, after acting as General Counsel and Company Secretary for Mackay Sugar Cooperative between 1999 and 2003.

Peter is a solicitor and is a Fellow of CPA Australia. He was previously employed by McCullough Robertson Solicitors from 1988 -1999 and 2004-2012. During his time at McCullough Robertson and when employed by Mackay Sugar and Mackay Sugar Cooperative, Peter has been closely involved with Mackay Sugar's commercial and legal matters and in particular the establishment of the sugar refining joint ventures, financing arrangements, Cane Supply and Processing Agreements, the Racecourse Cogeneration Project and the acquisition of Mossman Mill. He has also been involved in general sugar industry matters from both a legal, commercial and financial perspective.



Carissa Mansfield

B. Bus, MBA, Grad. Dip OH & S

Group Manager, Human Resources, Health, Safety and Environment

Carissa was appointed Manager Human Resources, Health, Safety and Environment in 2016 having previously held the position of Manager, Health, Safety and Environment from 2014 - 2016.

Carissa provides strategic leadership and the delivery of the HR and HSE strategic plan across all business units. She manages the Human Resources function including People and Culture, Training, Learning and Development, Workforce Planning/Recruitment and Employment/Industrial Relations, as well as all facets of Health, Safety and Environment across all operations including logistics, rail, cogeneration and manufacturing.

Carissa has over 15 years' experience in the health and safety environment and has held positions with Cordukes Pty Limited, CH4 Gas Limited, Peabody Energy and BHP Billiton Mitsubishi Alliance. She is Chair of the ASMC Environmental Committee and a member of the ASMC People and Safety Committee. Carissa is also a member of the Resource Industry Network Safety Committee and the Rural Safety Working Group.

Management (continued)



Jason Walton

Manager Cane Supply and Logistics

Jason was appointed to the role of Manager – Cane Supply and Logistics in June 2018. Jason joined Mackay Sugar in October 2011 in the role of Transport and Logistics Co-ordinator. He assumed the role of Transport and Logistics Manager in April 2013, and then transferred to Cane Supply in June 2016 to take up the position of Cane Supply Operations Manager. Jason has over 15 years' experience in the supply chain and logistics industry, working for OneSteel and Toll Intermodal prior to joining Mackay Sugar.

Jason's focus is to provide leadership, management and strategic direction to the Cane Supply department centred on the safe and efficient operation of Mackay Sugar's cane transport operations. Jason's area of responsibility includes cane development, harvest management, inbound cane transport and outbound logistics of raw sugar and milling by-products such as bagasse, molasses, mill mud and ash.



Tony Lloyd

Dip Mech Eng, MEA, Dip Mtce Mgmt, Cert. App Sc

Group Asset Manager

Tony is responsible for asset management across the Mackay Sugar group. This includes capital planning, projects development and implementation, asset management systems/development, reliability, maintenance planning and compliance.

He also oversees the management of the cane rail system, rollingstock and mobile plant across the Mackay area.

Tony has over 20 years' experience in the sugar industry and has been involved in key areas of the business having previously held positions as Project Engineer, Chief Engineer and Factory Manager at both Farleigh and Marian mills.

His primary focus is to ensure the Mackay Sugar assets are effectively managed to produce maximum benefit for all stakeholders.



Peter Flanders

B Eng (Mech) MBT

Factory Manager – Farleigh

Peter is responsible for the milling operations at the Farleigh site including all production and maintenance activities. He was appointed to this position in July 2015 and has over 33 years' experience in the sugar industry in both the milling and refining sectors. Peter started his career as a mechanical engineer and has held positions leading maintenance, project and operating teams and has previously worked as a Mill Manager. He also holds the position of Deputy Chairman of the Board of Directors for the Sugar Research Institute.



Mark Gayton

GDip Mtce Mgmt

Factory Manager - Racecourse

Mark is responsible for the milling and cogeneration operations at the Racecourse site including all production and maintenance activities.

He also is responsible to ensure the effective supply of services to support Sugar Australia refinery operations on the site.

Mark has over 35 years' experience in the sugar industry in both the engineering and management areas. He has previously held positions at Mackay Sugar including Shift Engineer, Maintenance Engineer, Engineering Superintendent, Factory Manager, Milling Operations Manager prior to his appointment as General Manager Operations in 2010.

Mark commenced as Factory Manager Racecourse in March 2018.



Phil Miskin

AssocDeg ElectEng

General Manager Mossman Mill

Phil was appointed General Manager Mossman mill in November 2017. He has direct responsibility for all Mossman mill operations, including cane supply and transport logistics, factory operations, business improvement, capital and maintenance projects.

Phil has worked in the sugar industry for over 35 years where he has had extensive experience in a range of electrical, engineering and production management roles. Prior to joining Mackay Sugar Phil held a number of Executive Management roles in other North Queensland sugar mills.



Craig Wood

BEng (Mech), GCert (Engineering Technology)

Factory Manager – Marian

Craig was appointed Marian Factory Manager in March 2016. Craig also worked with Wilmar and CSR for 11 years in several roles including Reliability Engineer, Engineering Manager, Site Manager and Acting General Manager Operations for seven factories for a period of 12 months. Craig has more than 28 years' experience in sugar after starting an apprenticeship as a Fitter and Turner at Isis Central Sugar Mill in 1979. Craig also had a break from the industry in 1988 which he spent in sales and business management prior to returning to Isis Central Mill in 1999.

Corporate Governance

The Board of Mackay Sugar Limited maintains high standards of corporate governance as part of their commitment to maximise shareholder value through promoting effective strategic planning, risk management, transparency and corporate responsibility. The Board fosters a culture that values ethical behaviour, integrity and respect. Adherence by the Company and its people to the highest standard of corporate governance is critical in order to achieve its vision.

Functions of The Board

The Board is responsible for oversight of the management of the Company and providing strategic direction. The Board believes that operating in accordance with high standards of corporate governance is a key element in the drive to improve the Company's performance. The Board has adopted a Charter and policies and established a number of committees to discharge its duties.

The Board has a formal Charter which documents its membership, operating procedures and the allocation of responsibilities between the Board and management. It directs and monitors the business and affairs of Mackay Sugar Limited on behalf of shareholders and is responsible for the Company's Corporate Governance.

In addition to matters required by law to be approved by the Board, the following powers are reserved for the Board for decision:-

Board composition

The Board is currently comprised of eight Directors, with

- five Grower Directors; and
- three Non-Grower Directors

The Board must comprise no less than seven Directors, two of whom must be Non-Grower Directors, or more than seven where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified.

The Directors currently holding office at the date of this report are set out on page 20–22 of this Annual Report.

Board responsibilities

Board/Executive Personnel	Corporate strategy and reporting	Risk and Compliance	Stakeholder Communications
<ul style="list-style-type: none"> — Composition of the Board including the appointment and retirement or removal of Directors. — Board succession planning to ensure an appropriate mix of skills, experience and diversity. (subject to the influence of Voting Shareholders to elect Grower Directors at the AGM). — Appoint and remove the Chief Executive Officer or equivalent. — Where appropriate, ratify the appointment and the removal of senior executives. — Approve and review succession planning for the Chief Executive Officer and senior executives. — Approve the overall remuneration policy including incentive plans upon the recommendation of the Remuneration and Nominations Committee. 	<ul style="list-style-type: none"> — Delegate responsibility for the day to day operation and management of the Company to the Chief Executive Officer and senior management. — Approve and monitor the progress of major capital expenditure, capital management, and acquisitions and sales. — Approve and monitor annual and half year reports, statements as to future financial performance or changes to the policy or strategy of the Company. — Input into and grant final approval of corporate strategy and performance objectives developed by management. — Monitor industry developments relevant to the Company and its business. 	<ul style="list-style-type: none"> — Review, ratify and monitor systems of risk management and internal control, codes of conduct and legal compliance. — The overall corporate governance of the Company including its strategic direction and goals for management, and monitoring the achievement of these goals. — Oversight of Committees. 	<ul style="list-style-type: none"> — Disclose information in accordance with the Corporations Act to ensure shareholders and other stakeholders are informed of all material developments affecting the Company.

Board appointment and retirement

The appointment and election of Grower Directors will be in accordance with Rule 15.2 of the Constitution. When a vacancy arises for a Non-Grower Director or where the Board decides a new Director is required with particular skills, the Remuneration and Nominations Committee must prepare a list of candidates considering what may be appropriate for the Company. This includes the skills, expertise and experience required, and the mix of those skills and experience with those of the existing Directors.

The appointed candidate will be required to have his or her appointment confirmed by resolution of the shareholders at the first general meeting of shareholders following the appointment of the Non-Grower Director.

The terms and conditions of the appointment of all new Non-Grower Directors must be specified in a letter of appointment. The letter of appointment will refer to the Constitution and to the Board Charter document.

Under the Constitution at least one-third of the Grower Directors, being the longest serving Directors, must retire at each Annual General Meeting. Retiring Directors are eligible to be re-elected.

Board meetings

Board meetings are normally held monthly, and must occur not less than ten times in any year. The Board visit all of the Company's sites throughout the year and this includes a presentation by management to aid Directors understanding of the business.

Details of Board and Committee meetings held and attendances at those meetings are set out in the Directors' Report on page 34.

Director training

Directors must be provided with information about the Company before accepting the appointment and complete an induction program after their appointment, in each case appropriate for them to discharge their responsibilities in office. Meetings with the Chief Executive Officer and senior executives, information on the strategic plan and key corporate and Board policies are included in the induction process.

Directors are given access to continuing education in relation to the Company, extending to its business, the industry in which it operates, and other information required by them to discharge the responsibilities of their office.

Board evaluation and performance review

A Board evaluation and performance review is conducted by an external consultant every three years. The scope of the evaluation is to determine the level at which the Board is performing, identify the areas in which the Board may improve and provide an opportunity to have a facilitated discussion about enhancing governance practices. The performance review may also provide for improved leadership, greater clarity of roles and responsibilities, improved teamwork, increased accountability, better decision making and more efficient Board operations.

The performance of all other Directors is reviewed and assessed every two years by the Chairman, and the performance of the Chairman is reviewed and assessed every two years by the other Directors.

An external assessment of the Board's policies and procedures, and its effectiveness generally must be conducted by independent professional consultants at intervals of three years

Independent advice

Directors may seek independent legal or other professional advice at the Company's expense on matters arising during the course of his or her duties with the prior approval of the Chairman.

Code of conduct

All Directors and Executives are required at all times to act in accordance with the Company's Code of Conduct, which prescribes standards of behaviour to be maintained in relation to:-

- Obligation to comply with the code and the law
- General duties of Directors
- Independent decision making and soundness of decisions
- Confidentiality of Board matters and other information
- Improper use of information
- Personal interests and conflicts
- Conduct of Directors
- Board performance

Trading in securities

The Board has a code of conduct for transactions in securities that applies to Directors of the Company. This code of conduct sets out the legal duties relating to transactions in securities.

As a basic principle the Charter states that Directors should not buy or sell securities in the Company when they are in possession of price sensitive information which is not available to the market. In addition, the Charter identifies the permitted timeframes for trading in securities and blackout periods during which no Directors are allowed to trade in Company securities.

Permission may be given for trading outside of the specified timeframes if the approving person is satisfied that the transaction would not be contrary to law, for speculative gain, to take advantage of insider knowledge, or seen by the public, press or other shareholders as unfair.

Dealing with conflicts of interest

The Board has conflict of interest guidelines within the Charter which apply if there is a conflict between the personal interests of a Director and the duties the Director owes to the Company. Directors have a duty to avoid any conflict between the best interests of the Company and his or her own personal interests or the interests of any third party.

Every Director must be aware of both actual and potential conflicts of interest. The law requires that a Director with a conflict of interest should refrain from voting, or entering into any discussion, at, or even being present during relevant Board discussions. A Director who has any material personal interest in a matter must not be present at a meeting while the matter is being considered and must not vote on the matter. A personal interest may be either direct or indirect and either pecuniary or otherwise. Papers relevant to any matter on which there is a known conflict of interest, or in relation to which there is a material personal interest, will not be provided to any Director concerned.

Board Committees

Each Committee has a Charter, detailing its role, duties and membership requirements. The Committee Charters are reviewed annually and updated as required. Each Committee's Charter may be viewed on the Company's website at www.mkysugar.com.au.

All Directors have a standing invitation to attend committee meetings. Minutes of the committees are provided to all Directors in the Board papers for the next meeting of the Board and proceedings of each meeting are reported by the Chair of the committee at the subsequent Board meeting. Details of the membership, composition and responsibilities of each committee are detailed below.

Audit And Finance Committee

The role of the Audit and Finance Committee is to assist the Board to manage the business, financial and strategic risks, to verify the integrity of the Company's statutory and financial reporting, monitor the effectiveness of external and internal audit, the appropriateness of the internal controls and compliance, the appropriateness of financial risk systems and compliance, the application of corporate governance principals and the tax affairs of the Company, and to provide corporate governance oversight to the Finance Department's functions.

Key activities undertaken by the Audit and Finance Committee include:

- to oversee the Company's business, financial and strategic risk management program;
- review operating and capital budgets of the Company prior to submission to the Board for approval to ensure that the expenditure proposed is justified, sufficient to support sustainable safety, environment and energy efficiency initiatives, and maintenance and capital projects, and all within the Company's ability to fund these;
- monitor the overall financial position of the Company in particular the ongoing cash and net debt position;
- monitor the risk of exposure to lending rates and interest rate hedging policies and requirements;
- monitor the pricing projections of Queensland Commodity Services and the impact on the Company's financial reports from the activities of any subsidiaries;
- monitor compliance with facility agreements, Board policies and mandates;
- make recommendations to the Board on the appointment, reappointment or replacement of the external auditor;
- monitor the effectiveness and independence of the external auditor;
- review and approve the Company's accounting policies and practices and monitor compliance with accounting standards that relate to the preparation of the accounts;
- review and recommend for approval by the Board the half yearly and annual reports and Directors' report, and all other related reports which are required by any law, accounting standard or other regulatory body;
- oversee the effectiveness of the Company's internal controls;
- review and approve the Company's business continuity plans, with specific reference to IT and other essential business systems;
- assist the Board in the identification and oversight of financial risk;
- monitor and review the effectiveness of the financial risk and internal control systems implemented by management;
- consider the processes applied by management to comply with the Board approved policies for liquidity risk, funding risk, credit risk and interest rate risk.
- ensure management has appropriate controls in place for any transactions that may carry more than the usual degree of financial risk;
- ensure that the processes for disclosure and regular reporting of significant financial risk is implemented.

Remuneration And Nominations Committee

The role of the Remuneration and Nominations Committee is to ensure that the Company has fair and responsible remuneration policies and practices to attract and retain Directors, Executives and staff who will create value to shareholders, and to review Board composition, performance and succession planning.

Key responsibilities are as follows:

- review the ongoing appropriateness and relevance of the Company's remuneration policy with reference to market comparisons;
- approve any major changes in employee benefits structures throughout the Company including superannuation, insurance, indemnities and other benefits;
- approve the design of any performance related pay schemes operated by Mackay Sugar Limited and approve the total annual payments made under such schemes;
- determine Key Performance Indicators for the Chief Executive Officer before the start of the Company's financial year, against which his/her performance will be assessed;
- determine the total individual remuneration package (including bonuses and incentive payments) and termination arrangements of the company's Chief Executive Officer and recommend to the Board for approval any changes prior to implementation;
- review the Board structure, size and composition and make any recommendations to the Board with regard to any changes deemed necessary;
- provide, via the Company Secretary, a tri-annual performance evaluation of the members of the Board;
- evaluate the balance of skills, knowledge and experience of the Board and, in the light of this evaluation, prepare a description of the role and capabilities required by the Board;
- recommend to the Board the appointment of Non-Grower Directors and the Chief Executive Officer;
- approve, following the recommendation of the Chief Executive Officer, the appointment of the Chief Financial Officer and the Company Secretary;
- consider succession issues relating to the Chairman, Non-Grower Directors, the Chief Executive Officer, Chief Financial Officer and Company Secretary.
- propose to the Board the framework and quantum of remuneration for the Chairman of the Board, Deputy Chairman, Grower and Non-Grower Directors that provides appropriate, responsible and fair reward for their individual contributions to the success of Mackay Sugar Limited.

Health, Safety And Environment Committee

The role of the Compliance Committee is to assist the Board in fulfilling its governance and oversight responsibilities for Occupational Health and Safety and Environmental Management.

Key responsibilities of the Committee are to have oversight and review of:-

- the Company's compliance with approved Health and Safety and Environmental policies and legislation and the impact of changes in Workplace Health and Safety legislation;
- the adequacy of the Occupational Health and Safety and Environmental Management systems in complying with statutory and regulatory obligations;
- the effectiveness of the Company's Occupational Health and Safety systems in working towards the Company's safety and environmental objectives;
- key health, safety and environmental incidents and mitigation strategies that may have strategic business and reputational implications for the Company.



Directors' Report

For the year ended 31 May 2018

The Directors present their report, together with the consolidated financial statements, on the Group comprising of Mackay Sugar Limited (referred to hereafter as the 'Company' or 'parent entity') and its subsidiaries for the year ended 31 May 2018, and the auditor's report thereon.

Board of Directors

The Directors who were in office from 1 June 2017 to the date of this report are as follows:

MR (Mark) Day	Chairman
PA (Paul) Manning	Deputy Chairman
LM (Lee) Blackburn	
LG (Lawrence) Bugeja	
AS (Andrew) Cappello	
RM (Richard) Findlay	
JP (Jeffrey) Grech	
MC (Maurie) Maughan	

The profiles of the above Directors can be found on pages 20–22. A record of Board Meeting attendance during the year under review is set out on page 34.

Changes to the Board

Mark Day – Non Grower Director

Mark Day was elected Chairman of Directors on 14 November 2017.

Jeffrey Grech – Grower Director

Jeffrey Grech was elected to the Board as a Grower Director on 17 July 2017.

Executives

Jason Lowry resigned as Chief Executive Officer of the Company on 19 January 2018. The Chairman of the Company, Mark Day, has assumed the responsibilities of the CEO in the interim.

Company Secretary

Donna Margaret Rasmussen – Company Secretary

Company Secretary since 1 August 2006, Donna has worked for Mackay Sugar Limited and its predecessor co-operatives for more than 35 years in senior administrative positions.

Directors' Report (continued)

The number of Directors meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year were:-

Meetings of Directors

	Directors Meetings	Special Directors Meetings	Committee Meetings of Directors Number of Meetings Attended/Held			General Meetings of the Company
			Audit and Finance	Remuneration and Nomination	Health, Safety and Environment	
M. R. Day	11 of 11	11 of 11	1 of 1*			1 of 1
L. M. Blackburn	11 of 11	11 of 11			1 of 1*	1 of 1
L. G. Bugeja	11 of 11	11 of 11		6 of 6*	6 of 6	1 of 1
A. S. Cappello	11 of 11	11 of 11	5 of 5*	10 of 10		1 of 1
R. M. Findlay	11 of 11	11 of 11	3 of 3*	10 of 10		1 of 1
J. P. Grech	10 of 10*	11 of 11			5 of 5*	1 of 1
P. A. Manning	11 of 11	10 of 11	9 of 9	4 of 4*	6 of 6	1 of 1
M. C. Maughan	11 of 11	11 of 11	9 of 9			1 of 1

* meetings eligible to attend

Principal activities

Principal activities of the Group are:

- to acquire, transport and process sugar cane to produce raw sugar products and by-products and to transport, store, market, price and distribute those products and by-products;
- to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and
- to produce, market and distribute electricity and other value-added commodities through the use of products and by-products arising from the activities in (a) and/or (b) above.

There was no significant change in the nature of the Group's principal activities during the financial period.

Review of operations

Information on the operational performance of the Group for the year ending 31 May 2018 is discussed in the Operations section (pages 10 to 12) of this report.

Operating results

Operating results for the period ending 31 May 2018 are set out in The year in review (page 1 to 8) and the Financials section (pages 38 to 64) of this report.

Health, Safety and Environment

The Company has comprehensive Health, Safety and Environment Policies and is committed to continuous improvement in this area.

The Company is subject to a range of environmental legislation in Australia. Information on the Company's compliance with environmental legislation is contained in the Environment section (page 14) of this report.

Equal employment opportunities

The Company's employment policies are continually reviewed to ensure compliance with governing legislation in the area of equal employment opportunity. The Company is compliant with the requirements of the Equal Opportunity for Women in the Workplace Agency (EOWA).

Information on the Company's compliance with equal employment opportunity legislation is detailed in the Employees section (pages 16 to 17) of this report.

Dividends paid or recommended

No dividends were paid or declared for payment during the financial year.

Directors' Report (continued)

Remuneration report

The “Corporations Legislation Amendment (Deregulatory and Other Measures) Act 2016”, enacted on 19 March 2016, amended the *Corporations Act 2001* to exclude “unlisted disclosing entities” from being required to prepare a remuneration report. As the Company is classified as an unlisted disclosing entity under the *Corporations Act 2001*, a remuneration report has not been included in the Directors' report. Under the accounting standards, the Company is required to disclose summarised remuneration information in relation to the Directors and certain executives in the notes to the accounts. This information has been included in the concise financial report included in this report (Refer note 4: Key management personnel compensation).

Options

No options over issued shares or interests in the Company were granted during the financial year or since the end of the financial year and there were no options outstanding at the date of this report.

Significant changes in state of affairs

The Group has its bank facilities maturing in March 2019 along with the FIIG facility maturing in April 2019. The Board has identified a need to raise additional capital. This has come about as a result of the high debt level and poor profit outcomes over a number of years. The funds from the additional capital are required to fund capital expenditure, provide necessary working capital and to reduce debt. At the date of this report, the Company is continuing to engage with potential investors to achieve a recapitalisation of the Company. The sale of the Mossman milling assets is also progressing and was not finalised at the date of this report.

As stated in the previous Directors' Report, the Company implemented a \$2 per tonne grower contribution in the form of a deferred cane payment, commencing in the 2017 season, for cane supplied at the three Mackay mills. An agreement was reached with the bargaining agents for the majority of suppliers. The Company also took action to amend the cane supply and processing agreement for remaining sugar cane suppliers to ensure the \$2 per tonne contribution was fairly and consistently made by all sugar cane suppliers. A small group of growers who did not agree to pay the levy took legal action which resulted in the Company being required to refund \$444,883 to that group.

The Company has determined that the deferred cane payment is required to be accounted for as a liability as at 31 May 2018 under the Australian accounting standards. Accordingly, an amount of \$9,939,088 million, representing the deferred cane payments for the 2017 season has been recognised as an 'Other liability' in the financial statements for the year ended 31 May 2018 (refer note

11(a) of the financial statements included in this report).

The Company sold a subsidiary, Mackay Commodity Services Pty Ltd, on 29 November 2017. Mackay Commodity Services Pty Ltd was the holder of an Australian Financial Services (AFS) licence for potential future financial services operations to be undertaken through Queensland Commodity Services Pty Ltd. As a result of developments in the industry, these future services were no longer considered necessary, and therefore the subsidiary and associated financial services licence was sold.

There were no other significant changes in the state of affairs of the Company, other than those advised in other sections of this report, or in the accounts or in the notes thereto.

Going Concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Business section on pages 10 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Concise Financial Report and in more detail in the full financial reports.

As noted in the Executive Chairman/CEO's Report on page 2, the current economic environment is challenging and the Group has reported a loss for the year. The Directors consider that the outlook continues to present significant challenges in terms of operating performance as well as revenues, pricing and costs, and cash generation. While the Directors have instituted measures to help preserve cash and secure existing financing avenues as well as exploring other avenues in the area of capital management, these circumstances none the less create material uncertainties over future results and cash flows. In particular the Directors are aware that substantial expenditure will be required to address maintenance and capital requirements within the milling assets and these must be balanced with funding available to the Company. The Directors are seeking to recapitalise the Company in order to reduce debt and allow for further investment in the Company's assets. The Group is investigating options, but at this stage there can be no certainty that any particular transaction will proceed.

The Group obtained extensions during the year on its loan facilities with Rabo/NAB and the \$50 million Unsecured Notes managed through FIIG Securities. All facilities were extended for a further one year period to March/April 2019. The Group is in continuous discussions with its financiers in relation to its operations and financing facilities to secure future support.

The Directors have determined that the above circumstances represent a material uncertainty that casts some doubt about the Group's ability to continue as a going concern. Nevertheless after considering the going concern issues and uncertainties described above and within the notes to the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue operations into the foreseeable future. For these reasons they continue to adopt the going concern basis for preparing these financial reports.

Events after the reporting period end date

On 1 August 2018, a decision of the Supreme Court of Queensland determined that the action taken by the Company, to apply a \$2 per tonne contribution to the sugar cane suppliers whose bargaining representatives had not reached agreement with the Company, was invalid. As a result the Company has refunded the amount of \$444,883 for the 2017 season, leaving the Company currently unable to recover the contribution from those sugar cane suppliers for the 2018 season.

In the opinion of Directors, no other matter or circumstance has arisen in the interval between the end of the financial year and the date of this report, which significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Future developments

The Board continues to explore ideas and projects to advance the Company's core business through improvements in milling rate, recovery and reliability. Likely developments in the operations of the Company and the expected results in future financial years have not been included in this report. The Board is working with Kidder Williams to find an investor for the Company and until any such development becomes a firm commercial proposal, untimely and early disclosure of such information is likely to result in unreasonable prejudice to the Company.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

Indemnification of Officers

The Company has paid premiums to insure Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting for the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Rounding of amounts

The Company has applied the relief available to it under Australian Securities and Investments Commission (ASIC) Instrument 2016/191 and accordingly, amounts in this report and associated financial statements have been rounded to the nearest thousand dollars where appropriate.


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 37.

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



M.R. Day
Director - Chairman



P.A. Manning
Director - Deputy Chairman

Dated: 4 October 2018

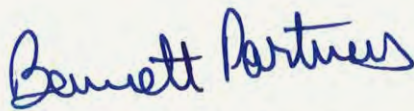
Auditor's Independence Declaration

To the Directors of Mackay Sugar Limited

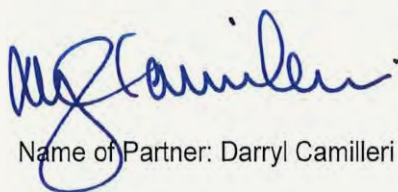
AUDITOR'S INDEPENDENCE DECLARATION UNDER s 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 31 May 2018 there have been no contraventions of:

- i. the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.



Name of firm: Bennett Partners



Name of Partner: Darryl Camilleri

Address: 122 Wood Street, Mackay

Date: 4th October, 2018

Information on the concise financial report

The concise financial report is an extract from the full financial report for the year ended 31 May 2018. The financial statements, disclosures and other information included in the concise financial report have been derived from, and are consistent with the corresponding full financial report of Mackay Sugar Limited and controlled entities.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report. A copy of the full financial report and auditor's report will be sent to any shareholder, free of charge, upon request.

A discussion and analysis of the financial statements has been included in the "Financial Snapshot" in the Annual report. This has been provided to assist shareholders in understanding the concise financial report. The information contained in this discussion and analysis has been derived from Mackay Sugar's full 2018 financial report.

Consolidated statement of profit or loss

For the year ended 31 May 2018

	Note	May 2018 \$'000	May 2017 \$'000
Revenue from operating activities			
Revenue	2(a)	448,851	498,833
Finance revenue	2(b)	356	328
Total revenue		449,207	499,161
Changes in inventories of finished goods		(1,967)	(227)
Cost of sales		(249,457)	(281,087)
Gross profit		197,783	217,847
Revenue from non-operating activities	2(c)	307	9
Maintenance expenses		(50,699)	(48,383)
Operating expenses		(84,510)	(90,797)
Administration expenses		(45,385)	(44,456)
Distribution and marketing expenses		(8,339)	(6,539)
Depreciation		(16,602)	(16,986)
Finance costs		(13,301)	(13,342)
Other expenses		(277)	(4,066)
Loss on impairment of Sugar Australia JV	9	(6,900)	(34,607)
Loss on revaluation of property, plant and equipment	10	(2,933)	-
Share of profits of associate and joint venture		10,429	7,906
Profit/(loss) before income tax		(20,427)	(33,414)
Income tax expense	8	-	-
Profit/(loss) for the year		(20,427)	(33,414)
Profit attributable to:			
Members of the Company		(20,427)	(33,414)
Non-controlling interests		-	-
Profit for the year		(20,427)	(33,414)

The accompanying notes form part of this concise financial report

Consolidated statement of comprehensive income

For the year ended 31 May 2018

	Note	May 2018 \$'000	May 2017 \$'000
Profit/(loss) for the year		(20,427)	(33,414)
Other comprehensive income or loss			
Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of property, plant and equipment	9	-	-
Items that may be reclassified subsequently to profit or loss:			
Gain on remeasurement of financial assets		885	347
Fair value movements on cash flow hedges		9,073	29,247
Exchange differences on translation of foreign associated company		(1,032)	396
Share of other comprehensive income/(loss) of associated company		361	(1,215)
Share of other comprehensive income/(loss) of the joint venture		(150)	(1,425)
		9,137	27,350
Income tax expense relating to components of other comprehensive income/(loss)	8	-	-
Other comprehensive income/(loss) for the year, net of tax		9,137	27,350
Total comprehensive income/(loss) for the year		(11,290)	(6,064)
Total comprehensive income/(loss) attributable to:			
Members of the Company		(11,290)	(6,064)
Non-controlling interests		-	-
Total comprehensive income/(loss) for the year		(11,290)	(6,064)

The accompanying notes form part of this concise financial report.

Consolidated statement of financial position

As at 31 May 2018

	Note	May 2018 \$'000	May 2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		14,793	18,264
Trade and other receivables		21,711	33,091
Other financial assets		15,707	11,973
Inventories		12,981	14,687
Assets held-for-sale		-	66
Other assets		452	865
Total current assets		65,644	78,946
Non-current assets			
Trade and other receivables		550	1,051
Other financial assets		34,796	32,406
Investments accounted for using the equity method	9	81,315	94,637
Property, plant and equipment	10	304,853	312,268
Investment properties		3,074	3,101
Total non-current assets		424,588	443,463
Total assets		490,232	522,409
Liabilities			
Current liabilities			
Trade and other payables		45,055	62,782
Interest bearing liabilities		162,671	174,680
Other liabilities	11	3,835	897
Other financial liabilities		364	4,903
Employee benefits		10,547	10,644
Total current liabilities		222,472	253,906
Non-current liabilities			
Interest bearing liabilities		3,017	4,355
Other liabilities	11	29,529	18,239
Other financial liabilities		27,473	26,932
Employee benefits		2,752	2,698
Total non-current liabilities		62,771	52,224
Total liabilities		285,243	306,130
Net assets		204,989	216,279
Equity			
Issued capital		16,498	16,498
Reserves		31,850	22,713
Retained profit		156,641	177,068
Total equity		204,989	216,279

Consolidated statement of changes in equity

For the year ended 31 May 2018

Consolidated Group

Balance at 1 June 2016

Dividends
 Transactions with owners in their capacity as owners
 Profit attributable to the shareholders of the Company
 Other comprehensive income/(loss):
 Remeasurement of financial assets
 Adjustments from translation of foreign associated company
 Cash flow hedges: gains allocated to equity
 Share of associated company's hedging reserve movements
 Share of joint venture's hedging reserve movements
 Total comprehensive income for the year

Balance at 31 May 2017

Dividends
 Transactions with owners in their capacity as owners
 Profit attributable to the shareholders of the Company
 Other comprehensive income/(loss):
 Remeasurement of financial assets
 Adjustments from translation of foreign associated company
 Cash flow hedges: gains allocated to equity
 Share of associated company's hedging reserve movements
 Share of joint venture's hedging reserve movements
 Total comprehensive income for the year

Balance at 31 May 2018

The accompanying notes form part of this concise financial report

Note	Ordinary share capital	Retained profit	Financial assets revaluation reserve	Asset revaluation reserve	Foreign currency translation reserve	Hedging reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	16,498	210,482	5,760	-	3,336	(13,733)	222,343
3	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	(33,414)	-	-	-	-	(33,414)
	-	-	347	-	-	-	347
	-	-	-	-	396	-	396
	-	-	-	-	-	29,247	29,247
	-	-	-	-	-	(1,215)	(1,215)
	-	-	-	-	-	(1,425)	(1,425)
	-	(33,414)	347	-	396	26,607	(6,064)
	16,498	177,068	6,107	-	3,732	12,874	216,279
3	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	(20,427)	-	-	-	-	(20,427)
	-	-	885	-	-	-	885
	-	-	-	-	(1,032)	-	(1,032)
	-	-	-	-	-	9,073	9,073
	-	-	-	-	-	361	361
	-	-	-	-	-	(150)	(150)
	-	(20,427)	885	-	(1,032)	9,284	(11,290)
	16,498	156,641	6,992	-	2,700	22,158	204,989

Consolidated statement of cash flow

For the year ended 31 May 2018

	May 2018 \$'000	May 2017 \$'000
Cash flow from operating activities		
Receipts from sugar sales and other sales	500,202	541,119
Payments to cane suppliers	(284,067)	(295,111)
Payments to other suppliers and employees	(205,082)	(201,481)
Distributions received from associated entities	10,624	6,696
Interest received	356	328
Other revenue	10,061	4,497
Finance costs	(12,098)	(12,404)
Net cash provided by operating activities	19,996	43,644
Cash flow from investing activities		
Payments for purchases of property, plant and equipment	(12,281)	(22,760)
Distributions received / (contributions made) to associated entities	1,957	3,554
Proceeds on sale of property, plant and equipment	44	9
Proceeds on sale of property held for sale	280	-
Proceeds on sale of subsidiary	50	-
Net cash used in investing activities	(9,950)	(19,197)
Cash flow from financing activities		
Proceeds from interest bearing activities	37,338	62,470
Repayment of interest bearing activities	(42,962)	(92,527)
Lease liability payments	(294)	(294)
(Increase)/decrease in growers' loans	479	839
Decrease in interest bearing deposits	(30)	(145)
Decrease in selected-term unsecured notes	(8,048)	(8,964)
Net cash provided by (used in) financing activities	(13,517)	(38,621)
Net increase/(decrease) in cash and cash equivalents	(3,471)	(14,174)
Cash and cash equivalents at the beginning of the year	18,264	32,438
Cash and cash equivalents at the end of the year	14,793	18,264

The accompanying notes form part of this concise financial report.

Notes to the concise financial report

For the year ended 31 May 2018

Note 1: Basis of preparation of the concise financial report

This financial report covers the economic entity of Mackay Sugar Limited and its controlled entities (referred to as the 'Group'). The economic entity is an unlisted public Company, limited by shares, incorporated and domiciled in Australia.

The concise financial report is an extract from the full financial report for the year ended 31 May 2018. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports and the Corporations Act 2001.

These concise financial statements are consolidated concise financial statements required to be prepared by Mackay Sugar due to the operations of two controlled entities during the year.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of Mackay Sugar. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of Mackay Sugar as the full financial report.

The financial report of Mackay Sugar complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. The presentation currency used in this concise financial report is Australian dollars.

The Company has applied the relief available to it under ASIC Instrument 2016/191 and accordingly, amounts in this concise financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Changes in accounting standards

There were no changes in the accounting standards during the year that had a significant effect on the preparation and presentation of the full financial report.

Changes in accounting policies

The consolidated group changed its accounting policy relating to the recognition of the provision for employee benefits for the year ended 31 May 2018. The change has affected the allocation of the provision amounts between current liability and non-current liability at the end of the financial period. An explanation of the change in accounting policy is as follows:

Previous policy: Long service leave (LSL) was allocated between current liability and non-current liability based on an expected leave taken profile, whereby only the LSL expected to be taken over the next 12 months following the end of the period was recognised as a current liability. The remaining LSL was recognised as a non-current liability.

Revised policy: LSL is allocated to current liability at the end of the period if it is 'vested', regardless of when the leave is expected to be taken. LSL is considered 'vested' once an employee's minimum years of service is reached that allows the LSL to be taken. For the majority of Mackay Sugar employees vesting takes place after ten years of service. The LSL leave for employees with less than ten years of service will continue to be recognised as a non-current liability.

The above change in accounting policy has been implemented due to recent clarifications in the interpretation of the Australian accounting standards in relation to this issue. The Group's revised accounting policy is now in accordance with the recommended interpretation of the Australian accounting standards.

Notes to the concise financial report

For the year ended 31 May 2018

Changes in accounting policies (continued)

The above change in accounting policy has only affected the allocation of the provision for employee benefits between current liability and non-current liability. There has been no change in total liabilities, net assets or equity as a result of this change in accounting policy. There have also been no changes to the Statement of profit or loss, Statement of comprehensive income, Statement of changes in equity, or Statement of cash flows as a result of this change in accounting policy.

The aggregate effect of the change in accounting policy on the financial statements for the year ended 31 May 2018 (including updated comparatives) is as follows:

	Year Ended 31 May 2018		
	Previous Policy \$'000	Adjustment \$'000	Revised Policy \$'000
Consolidated statement of financial position			
Current liabilities			
Employee benefits	5,079	5,468	10,547
Total current liabilities	215,314	5,468	220,782
Non-current liabilities			
Employee benefits	8,220	(5,468)	2,752
Total non-current liabilities	67,818	(5,468)	62,350
Total liabilities	283,132	-	283,132
Net assets / Equity	216,741	-	216,741

	Year ended 31 May 2017		
	Previous Policy \$'000	Adjustment \$'000	Revised Policy \$'000
Consolidated statement of financial position			
Current liabilities			
Employee benefits	4,923	5,721	10,644
Total current liabilities	248,185	5,721	253,906
Non-current liabilities			
Employee benefits	8,419	(5,721)	2,698
Total non-current liabilities	57,945	(5,721)	52,224
Total liabilities	306,130	-	306,130
Net assets / Equity	216,279	-	216,279

There were no other changes in the accounting policies of the Group during the year that had a significant effect on the preparation and presentation of the full financial report.

The financial report was authorised for issue on 4 October 2018 by the Board of Directors.

Notes to the concise financial report

For the year ended 31 May 2018

Note 2: Revenue

	Note	May 2018 \$'000	May 2017 \$'000
(a) Revenue from operating activities			
Sale of goods		440,973	486,335
Services revenue		371	378
Dividends received – other corporations		2,127	2,062
Government subsidies received	2(d)	773	860
Rental revenue		459	487
Insurance claims		4,030	8,651
Recoveries		58	6
Other revenue		60	54
		448,851	498,833
(b) Finance revenue			
Bank interest received – other corporations		354	321
Loan interest received – other persons		2	7
		356	328
(c) Revenue from non-operating activities			
Gain on disposal of property, plant and equipment		43	9
Gain on disposal of assets held-for-sale		214	-
Gain on sale of subsidiary		50	-
		307	9
(d) Government subsidies			
Government subsidies received or receivable:			
Government subsidies received in relation to capital projects		2,558	-
Government subsidies received allocated directly to income		11	98
		2,569	98
Government subsidies received included in income:			
Government subsidies received allocated directly to income		11	98
Deferred government subsidies allocated to income		762	762
		773	860

Various government grants have been received for capital related projects. There are no unfulfilled conditions or contingencies relating to existing grants as at 31 May 2018.

Notes to the concise financial report

For the year ended 31 May 2018

Note 3: Dividends and franking account

	May 2018 \$'000	May 2017 \$'000
(i) Dividends declared during the year:		
Nil	-	-
(ii) Dividends paid during the year:		
Nil	-	-
(iii) Dividends declared but not paid at year-end:		
Nil	-	-
(iv) Balance of the franking account at the end of the year	5,189	5,189
The franking account will be reduced subsequent to the year-end as a result of the fully franked dividend declared per (iii) above	-	-
	5,189	5,189

Notes to the concise financial report

For the year ended 31 May 2018

Note 4: Key management personnel compensation

(a) Details of key management personnel

Directors and executives who have held office during the financial year were:

Directors

M. Day	Chairman (executive) (Elected Chairman of Directors on 14th November 2017) Chief Executive Officer (From 22nd January 2018)
A.S. Cappello	Director (non-executive) (Chairman of Directors to 14th November 2017)
P.A. Manning	Deputy Chairman (non-executive)
L.M. Blackburn	Director (non-executive)
L.G. Bugeja	Director (non-executive)
R.M. Findlay	Director (non-executive)
J.P. Grech	Director (non-executive) (Commenced 17th July 2017)
M.C. Maughan	Director (non-executive)
M. Sage	Director QCS (non-executive)

Executives

J. Lowry	Chief Executive Officer (For the period 1st June 2017 to 19th January 2018)
P.J. Gill	General Manager – Commercial and Legal
T. Doolan	General Manager – Milling Operations
D.J. Said	Chief Financial Officer
C. Bentley	General Manager – Cane Supply & Logistics (For the period 1st June 2017 to 18th May 2018)
J.M. Walton	General Manager – Cane Supply & Logistics (From 18th May 2018)
H. Slattery	General Manager – Mossman Mill (For the period 1st June 2017 to 16th June 2017)
A. Johnstone	General Manager – Mossman Mill (For the period 17th June 2017 to 26th November 2017)
P.J. Miskin	General Manager – Mossman Mill (From 27th November 2017)
C. A. Mansfield	General Manager – HR/HSE (From 4th April 2018)

Notes to the concise financial report

For the year ended 31 May 2018

Note 4: Key management personnel compensation (continued)

(b) Compensation of key management personnel

The aggregate compensation for key management personnel during the financial year was as follows:

	May 2018 \$'000	May 2017 \$'000
Short-term benefits		
Salary and fees	2,304	2,035
Bonuses	-	-
Non-cash benefits	5	29
Other	91	222
Termination	295	-
Post-employment benefits	256	222
Other long-term benefits	(80)	46
Total benefits and payments	2,871	2,554

(c) Key management personnel options and rights holdings

Key management personnel are not entitled to any options or rights holdings. There were no transactions in options and rights and no holdings of options or rights by any key management personnel during the financial year.

(d) Key management personnel shareholdings

The number of shares in Mackay Sugar held by key management personnel or their related parties during the financial year was as follows:

Investment shares	Balance at the beginning of the year	Changes during the year	Balance at the end of the year
A.S. Cappello	480,119	-	480,119
L.M. Blackburn	179,787	-	179,787
L.G. Bugeja	347,924	-	347,924
J.P. Grech	1,134,177	-	1,134,177
P.A. Manning	100,000	-	100,000
D.J. Said	41,282	-	41,282
	2,283,289	-	2,283,289

The shares are not issued as a result of any remuneration or option benefits. The above key management personnel (personally or through associated entities) also hold one voting share for each eligible farming enterprise which entitles them to vote on any shareholders' poll.

(e) Other key management personnel transactions

There have been no other transactions involving equity instruments other than those described in the tables above. There have been no loans provided to key management personnel and therefore no transactions or balances exist in relation to loans to key management personnel during the financial year.

Notes to the concise financial report

For the year ended 31 May 2018

Note 5: Events after the end of the reporting period

Deferred Cane Payment

On 1 August 2018, a decision was handed down by the Supreme Court of Queensland in relation to the Company's deferred cane payment arrangements with some of its sugar cane suppliers. Refer to note 11(a) for the context and further information in relation to this decision.

Derivative financial positions

Since the end of the financial year, movements in the ICE No.11 Raw Sugar Futures prices and exchange rates have resulted in variances to the "mark-to-market" values reported in the financial statements.

As the Group has entered into sugar futures and options contracts, foreign exchange contracts, foreign currency options, and commodity swap transactions, unrealised gains or losses on these derivatives fluctuate over time in line with changes to futures prices and foreign exchange rates.

As at 31 May 2018, the financial accounts reported a net unrealised gain on sugar pricing derivatives of \$19.3 million. However, as at 21 September 2018, in anticipation of the Board meeting, this amount would be calculated to be an unrealised gain of \$37.2 million, based on the quoted rates of the day for derivatives that are still outstanding and realised prices for derivatives that have been settled subsequent to year end. The change is mainly due to a reduction in the sugar price, offset in part by movements in foreign exchange rates.

The nature of a hedging relationship means that the above movement in mark-to-market values is offset when the raw sugar sales related to these transactions are realised.

Other matters

No other matters or circumstance has arisen in the interval between the end of the financial period and the date of this report, which has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the concise financial report

For the year ended 31 May 2018

Note 6: Interest in Subsidiaries

Information about Principal Subsidiaries

Set out below are the parent Company's subsidiaries at 31 May 2018. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Company and the proportion of ownership interests held equals the voting rights held by the Company. Each subsidiary's country of incorporation or registration is also its principal place of business.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Company		Proportion of Non-controlling Interests	
		At 31 May 2018	At 31 May 2017	At 31 May 2018	At 31 May 2017
Queensland Commodity Services Pty Ltd	Brisbane, Australia	100%	100%	-	-
Mackay Commodity Services Pty Ltd	Brisbane, Australia	-	100%	N/A	-
Mackay Commodity Trading Pty Ltd	Brisbane, Australia	100%	100%	-	-

The following subsidiaries were established and commenced operations as follows:

Queensland Commodity Services Pty Ltd

- Established on 28 March 2013 by the parent Company.
- Commenced operations on 31 July 2013.

Mackay Commodity Services Pty Ltd

- Established on 2 April 2013 by the parent Company.
- Commenced operations on 13 August 2013.
- Sold on 29 November 2017.

Mackay Commodity Trading Pty Ltd

- Established on 28 May 2015 by the parent Company.
- Has not commenced operations and was inactive during the year ended 31 May 2018.

There was no change in the ownership interests in any of the subsidiaries held by the Group during the year, apart from the sale of Mackay Commodity Services Pty Ltd.

Sale of Subsidiary

Mackay Commodity Services Pty Ltd was sold on 29 November 2017 and Mackay Sugar Limited no longer has an interest in this Company. The disposal of the Company resulted in a gain on sale of \$50,000.

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting

(a) Basis for segmentation

The Group has the following four strategic divisions which have been determined by management to be its reportable segments. These divisions offer different products and services, and are managed separately because they require different technology, resources and marketing strategies.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Raw Sugar Milling	Manufacture of raw sugar from sugar cane, including by-products molasses and electricity, in Queensland, Australia
Refined Sugar	Manufacture and distribution of refined sugar from raw sugar in Australia and New Zealand
Commodity Trading	Marketing, pricing and trading of raw sugar and related financial products
Other Investments	Investment activities not related to the operations of the above segments

The CEO of Mackay Sugar Limited has been determined to be the 'Chief Operating Decision Maker' of the Group. The CEO reviews the internal management reports of each division on a regular basis and strategic decisions are made based on these reports.

There are varying levels of integration between the Raw Sugar Milling, Refined Sugar, and Commodity Trading segments. This integration includes the transfers of products and shared services as explained below. Inter-segment pricing is determined on an arm's length basis.

(b) Information on inter-segment activities and aggregation of business units:

The segment amounts included in this note have been determined on the same basis as that reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance. The major business units included within each segment are as follows:

Raw Sugar Milling:

This segment derives revenues from the manufacture and distribution of raw sugar, molasses and electricity. Raw sugar sales are managed and undertaken through the Commodity Trading segment on behalf of this segment. The segment includes the operations of four raw sugar mills in Queensland, Australia (three Mills in Mackay and one Mill in Mossman).

Refined Sugar:

This segment derives revenues from the manufacture, distribution and marketing of refined sugar and related products. The segment is made up of three separate entities - Sugar Australia joint venture, New Zealand Sugar Company Pty Ltd, and Oriana Shipping Co. Pte Ltd. The entities operate from different geographical regions, but have been combined into one segment as their activities have similar economic characteristics and they are generally monitored as a whole. The entities are accounted for in the financial statements as equity-accounted investments as the Company has a 25% stake in each entity.

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

Commodity Trading:

This segment provides certain financial support services to the Group and third party customers. A significant portion of this segment's activities involves the marketing and sale of raw sugar obtained from the Raw Sugar Milling segment. Pricing and hedging services are provided through the use of various sugar and exchange rate trading strategies on global markets. A significant portion of the raw sugar from the Mackay region is sold to a business unit within the Refined Sugar segment.

Other Investments:

This segment includes a number of material investments whose activities have been considered to be unrelated to the above segments. These investments include Sugar Terminals Limited, Racecourse Projects Pty Ltd, Sugar North Limited, and M&M Molasses Pty Ltd. The segment also includes the operations of the Company's investment properties. Revenue from this segment is obtained from dividends and rental income.

(c) Information about reportable segments

Information related to each reportable segment is set out below. Segment results are generally evaluated on a profit before interest, corporate expenses and tax basis. This is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments. The Group manages its net debt, net finance costs and income taxes on a Group basis and these measures are therefore not reported internally at a segment level. Accordingly, various amounts included in the Group's financial statements have not been allocated between the segments as explained below.

Unallocated amounts

In relation to the segment information below, certain amounts from the Group's financial statements have not been allocated on the basis that they relate to the Group as a whole and it would be difficult to allocate the amounts between the segments on a reasonable or justifiable basis. This includes some or all amounts in the following areas:

- Finance revenue
- Finance costs
- Corporate expenses
- Cash at Bank
- Interest bearing liabilities
- Other financial liabilities

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

Year ended 31 May 2018	Reportable Segments				Total \$'000
	Raw Sugar Milling \$'000	Refined Sugar \$'000	Commodity Trading \$'000	Other Investments \$'000	
Revenue					
From external customers	54,138	182,180	207,470	2,609	446,397
Finance revenue from external customers	-	77	61	-	138
Discontinued operations	-	-	-	-	-
Inter-segment revenue	381,211	-	175,940	-	557,151
Total segment revenue	435,349	182,257	383,471	2,609	1,003,686
Profit/(loss)					
Segment profit/(loss) before tax	(9,793)	-	2,238	2,279	(5,276)
Share of profit/(loss) of equity-accounted investments	-	3,524	-	5	3,529
Total segment profit/(loss) before tax	(9,793)	3,524	2,238	2,284	(1,747)
Other reportable items included in profit/(loss)					
Interest income	-	77	61	-	138
Interest expense	(655)	(5)	(435)	-	(1,095)
Depreciation and amortisation	(16,575)	(3,520)	-	(27)	(20,122)
Income tax expense	-	(1,735)	-	-	(1,735)
Other material non-cash items:					
– Impairment losses on Sugar Australia JV	-	(6,900)	-	-	(6,900)
– Loss on revaluation of property, plant and equipment	(2,933)	-	-	-	(2,933)
– Impairment losses on property, plant and equipment	-	-	-	-	-
Segment assets					
Derivatives	577	-	19,674	-	20,251
Trade & other receivables	13,241	-	9,020	-	22,261
Other assets	318,001	-	1,846	33,326	353,173
Equity accounted investments	-	81,285	-	31	81,316
Total segment assets	331,819	81,285	30,540	33,357	477,001
Other reportable items included in assets					
Capital expenditure	12,281	3,809	-	-	16,090
Segment liabilities					
Derivatives	-	-	364	-	364
Trade & other payables	41,786	-	3,270	-	45,056
Other liabilities	50,039	-	2,696	-	52,735
Total segment liabilities	91,825	-	6,330	-	98,155

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

Year ended 31 May 2017	Reportable Segments				Total \$'000
	Raw Sugar Milling \$'000	Refined Sugar \$'000	Commodity Trading \$'000	Other Investments \$'000	
Revenue					
From external customers	64,060	194,580	190,148	2,567	451,355
Finance revenue from external customers	-	99	51	-	150
Discontinued operations	-	-	-	-	-
Inter-segment revenue	425,579	-	234,574	-	660,153
Total segment revenue	489,639	194,679	424,773	2,567	1,111,658
Profit/(loss)					
Segment profit/(loss) before tax	8,900	-	(249)	2,236	10,887
Share of profit/(loss) of equity-accounted investments	-	(26,697)	-	(4)	(26,701)
Total segment profit/(loss) before tax	8,900	(26,697)	(249)	2,232	(15,814)
Other reportable items included in profit/(loss)					
Interest income	-	99	51	-	150
Interest expense	(502)	(3)	(394)	-	(899)
Depreciation and amortisation	(16,954)	(6,107)	-	(31)	(23,092)
Income tax expense	-	(1,837)	-	-	(1,837)
Other material non-cash items:					
– Impairment losses on Sugar Australia JV	-	(34,607)	-	-	(34,607)
– Loss on revaluation of property, plant and equipment	-	-	-	-	-
– Impairment losses on property, plant and equipment	-	-	-	-	-
Segment assets					
Derivatives	253	-	14,758	-	15,011
Trade & other receivables	20,792	-	13,350	-	34,142
Other assets	327,069	-	8,616	32,534	368,219
Equity accounted investments	-	94,611	-	26	94,637
Total segment assets	348,114	94,611	36,724	32,560	512,009
Other reportable items included in assets					
Capital expenditure	22,760	4,460	-	-	27,220
Segment liabilities					
Derivatives	173	-	4,744	-	4,917
Trade & other payables	58,063	-	4,719	-	62,782
Other liabilities	38,531	-	207	-	38,738
Total segment liabilities	96,767	-	9,670	-	106,437

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

(d) Reconciliations of information on reportable segments to amounts reported in the financial statements

	May 2018 \$'000	May 2017 \$'000
Revenues		
Total revenue for reportable segments	1,003,686	1,111,658
Revenue of equity-accounted investments	(182,257)	(194,679)
Unallocated amounts:		
– Finance Revenue	295	277
Revenue for other segments	-	-
Elimination of inter-segment revenue	(372,517)	(418,095)
Elimination of discontinued operations	-	-
Consolidated revenue	449,207	499,161
Profit before tax		
Total profit before tax for reportable segments	(1,747)	(15,814)
Profit before tax for other segments	-	-
Elimination of inter-segment profit (dividend)	-	-
Elimination of discontinued operation	-	-
Unallocated amounts:		
– Corporate expenses	(6,763)	(5,431)
– Finance costs	(12,212)	(12,446)
– Finance revenue	295	277
Consolidated profit before tax from continuing operations	(20,427)	(33,414)

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

	May 2018 \$'000	May 2017 \$'000
Assets		
Total assets for reportable segments	477,001	512,009
Assets for other segments	-	-
Unallocated amounts:		
– Cash and cash equivalents	13,231	10,400
Consolidated total assets	490,232	522,409
Liabilities		
Total liabilities for reportable segments	98,155	106,437
Liabilities for other segments	-	-
Unallocated amounts:		
– Interest bearing liabilities	159,615	172,775
– Other financial liabilities	27,473	26,918
Consolidated total liabilities	285,243	306,130

Other material items

Year ended 31 May 2018	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest income	138	218	356
Interest expense	(1,095)	(12,206)	(13,301)
Depreciation and amortisation	(20,122)	3,520	(16,602)
Income tax expense	(1,735)	1,735	-
Loss on impairment of Sugar Australia JV	(6,900)	-	(6,900)
Loss on revaluation of property, plant and equipment	(2,933)	-	(2,933)
Impairment losses on non-financial assets	-	-	-
Impairment losses on property, plant and equipment	-	-	-
Capital expenditure	16,090	(3,809)	12,281

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

Other material items

Year ended 31 May 2017	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest income	150	178	328
Interest expense	(899)	(12,443)	(13,342)
Depreciation and amortisation	(23,092)	6,106	(16,986)
Income tax expense	(1,837)	1,837	-
Loss on impairment of Sugar Australia JV	(34,607)	-	(34,607)
Loss on revaluation of property, plant and equipment	-	-	-
Impairment losses on non-financial assets	-	-	-
Impairment losses on property, plant and equipment	-	-	-
Capital expenditure	27,220	(4,460)	22,760

(e) Revenue from external customers for each product and service

An analysis of the Group's revenue from external customers for each major product and service category is as follows:

	May 2018 \$'000	May 2017 \$'000
Raw sugar sales	207,288	190,155
Refined sugar sales	182,180	194,580
Electricity sales	19,031	19,843
Molasses sales	30,051	34,111
Sundry sales	292	483
Sundry services revenue	47	62
Rental revenue	459	487
Dividends received	2,127	2,062
Insurance proceeds	4,030	8,651
Other revenue	891	921
Finance revenue	139	150
Total revenue from external customers	446,535	451,505

Notes to the concise financial report

For the year ended 31 May 2018

Note 7: Segment reporting (continued)

(f) Geographic information

The Raw Sugar Milling segment and Other Investments segment operate in Mackay and Mossman in Queensland, Australia, and obtain all revenue from within Australia. The Refined Sugar segment operates throughout Australia and New Zealand, with the majority of revenue coming from the country of operations. The Commodity Trading segment operates from Brisbane, Queensland, Australia and obtains revenue from varying countries around the world on a yearly basis. The geographic information below analyses the Group's revenue, profit before tax, and non-current assets by the company's country of domicile and other countries. In presenting the following information, segment information has been based on the geographic location of the assets and operations in which the segment activities take place.

	May 2018 \$'000	May 2017 \$'000
Revenue from external customers		
Australia	395,555	392,582
All foreign countries		
– New Zealand	48,898	56,564
– Singapore	2,082	2,359
	446,535	451,505
Profit before tax		
Australia	(6,246)	(20,630)
All foreign countries		
– New Zealand	4,389	4,690
– Singapore	110	126
	(1,747)	(15,814)
Non-current assets		
Australia	389,589	406,409
All foreign countries		
– New Zealand	31,982	32,743
– Singapore	3,017	4,311
	424,588	443,463

(g) Major customer

Revenues from one external customer of the Group's Raw Sugar Milling segment represented approximately \$168,453,751 (2017: \$236,599,175) of the Group's total revenues.

Notes to the concise financial report

For the year ended 31 May 2018

Note 8: Taxes

Unrecognised tax losses

The Group has accumulated tax losses for income tax purposes that are currently able to be carried forward to future years. The gross accumulated tax losses that have not been recognised in the consolidated statement of financial position as a deferred tax asset are as follows:

	May 2018 \$'000	May 2017 \$'000
Gross accumulated tax losses at the beginning of the year	114,666	107,784
Add: Over-provision in prior years	-	-
Add: Tax losses incurred during the year	17,287	6,882
Less: Tax losses utilised during the year	-	-
Available gross accumulated tax losses for income tax purposes at the end of the year	131,953	114,666
Less: Gross tax losses recognised as a deferred tax asset to offset deferred tax liability	-	(1,236)
Remaining unused tax losses for which no deferred tax asset has been recognised	131,953	113,430

Notes to the concise financial report

For the year ended 31 May 2018

Note 9: Impairment of Equity-accounted Investments

Sugar Australia Joint Venture - Impairment

The Sugar Australia Joint Venture investment was determined to be impaired as at 31 May 2018.

The impairment was required due to an expected sustained reduction in profitability in the Joint Venture's refined sugar operations due to increased competition and supply in the Australian refined sugar market.

The investment was written-down to its recoverable amount (fair value) on 31 May 2018 as follows:

Valuation effective	31 May 2018	31 May 2017
Carrying value based on equity method of accounting	\$53,186,155	\$92,163,997
Fair value based on DCF 'Value-in-use' valuation	\$46,286,155	\$57,556,997
Impairment Adjustment (Write-down)	\$6,900,000	\$34,607,000

The impairment has been determined by comparing the investment's recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount as determined under the equity method of accounting. The recoverable amount has been based on a 'Value in use' discounted cash flow calculation of the Joint Venture's operations as determined by the Directors of Mackay Sugar Limited.

The discounted cash flow model and associated calculations used to determine the fair value as at 31 May 2018 have been performed by 'Education & Management Consulting Services Pty Ltd (EMCS)', independent valuers not related to the Group. EMCS have the appropriate qualifications and experience in business valuations and the fair value measurement of organisations.

A reconciliation of the carrying amounts and impairment amounts of 'Investments accounted for using the equity method' during the financial year is as follows:

	May 2018 \$'000	May 2017 \$'000
Carrying amount of Equity-accounted investments at period end prior to impairment	88,215	129,244
Losses recognised in profit or loss:		
– Impairment of Sugar Australia joint venture	(6,900)	(34,607)
Losses recognised in other comprehensive income:		
– Nil	-	-
Balance at the end of the year	81,315	94,637

Notes to the concise financial report

For the year ended 31 May 2018

Note 10: Revaluation of Property, plant and equipment

The fair value of all property, plant and equipment classes is assessed annually and revaluation adjustments are made when any changes in fair value or impairment have been considered to be material. The last revaluation adjustment of the Mackay and Mossman raw sugar milling assets was made on 31 May 2016. As at 31 May 2018, the Directors have determined that a revaluation of the assets is required to adjust their carrying value to fair value as follows:

Revaluation effective 31 May 2018	Mackay assets	Mossman assets	Total assets
Current Value of assets	\$304,787,634	\$2,997,917	\$307,785,551
DCF Valuation – Fair Value	\$304,787,634	\$65,232	\$304,852,866
Revaluation Adjustment (Write-down)	Nil	\$2,932,685	\$2,932,685

The revaluation resulted in no change in the 'Asset Revaluation Reserve'.

The discounted cash flow model and associated calculations used to determine the fair value as at 31 May 2018 have been performed by 'Education & Management Consulting Services Pty Ltd (EMCS)', independent valuers not related to the Group. EMCS have the appropriate qualifications and experience in business valuations and the fair value measurement of organisations.

The revaluation has been done on the basis of each valuation unit (Mackay raw sugar milling and Mossman raw sugar milling), and the revaluation adjustment has been allocated proportionally across the property, plant and equipment asset classes.

A reconciliation of the revaluation of amounts of property, plant and equipment during the financial year is as follows:

	May 2018 \$'000	May 2017 \$'000
Carrying amount of property, plant and equipment at period end prior to revaluation	307,786	312,268
Losses recognised in profit or loss:		
– Revaluation of Mossman raw sugar milling property, plant and equipment	(2,933)	-
– Revaluation of Mackay raw sugar milling property, plant and equipment	-	-
Losses recognised in other comprehensive income:		
– Revaluation of Mossman raw sugar milling property, plant and equipment	-	-
– Revaluation of Mackay raw sugar milling property, plant and equipment	-	-
Closing balance of property, plant and equipment at period end	304,853	312,268

Notes to the concise financial report

For the year ended 31 May 2018

Note 11: Other Liabilities

		May 2018 \$'000	May 2017 \$'000
Current			
Deferred sugar pricing gains		2,628	135
Deferred grant income		762	762
Deferred cane payment	11(a)	445	-
		3,835	897
Non-current			
Deferred grant income		20,035	18,239
Deferred cane payment	11(a)	9,494	-
		29,529	18,239

(a) Deferred cane payment

During the period, the Company implemented a \$2 per tonne grower contribution in the form of a deferred cane payment, commencing in the 2017 season, for cane supplied at the three Mackay mills. An agreement was reached with the bargaining agents for the significant majority of sugar cane suppliers of the Company. The Company also took action to amend the cane supply and processing agreement for the remaining sugar cane suppliers to ensure that the \$2 per tonne contribution was fairly and consistently made by all sugar cane suppliers. The contribution was to apply for a two year period and has been applied to all of the cane processed by the Mackay mills. The purpose of the contribution is to provide additional funds for operating costs, repair, improvement and maintenance of the Company's infrastructure.

The total tonnes of cane subject to the deferred cane payment agreement during the period were 4,969,543.86 tonnes. This equates to a total deferred cane payment of \$9,939,088 for the period.

Under the agreement, the funds from the deferred cane payment are repayable to the sugar cane suppliers upon the occurrence of certain trigger events. These trigger events are summarised as follows:

- Changes in ownership or a merging of the Company;
- Certain Insolvency events including the winding-up of the Company, appointment of a liquidator or administrator, and entering into a scheme of arrangement with creditors;
- Raising funds via the issue of shares;
- Declaration of a dividend or similar distribution;
- Any other event determined by the Board of the Company to be a trigger event.

Upon the occurrence of an Insolvency event, the repayment of the deferred cane payment will only be made after all of the Company's secured and unsecured creditors have been fully settled. Where the amount available to meet the deferred cane payments is not sufficient to meet all of the outstanding deferred payments, the deferred payments shall be made on a proportional basis based of the total amounts outstanding as deferred payments for all seasons.

Post balance date:

On 1 August 2018, a decision of the Supreme Court of Queensland determined that the action taken by the Company, to apply the \$2 per tonne contribution to the sugar cane suppliers whose bargaining representatives had not reached agreement with the Company, was invalid. As a result, the Company has refunded the amount of \$444,883 for the 2017 season on 10 August 2018. In addition, the Company is unable to deduct the contribution from those sugar cane suppliers for the 2018 season.

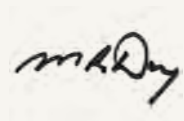
Directors' Declaration

For the year ended 31 May 2018

The Directors of Mackay Sugar Limited declare that the concise financial report of Mackay Sugar Limited and controlled entities for the financial year ended 31 May 2018, as set out on pages 38–64:

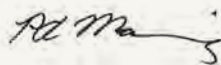
- a complies with Accounting Standard AASB 1039; Concise Financial Reports; and
- b is an extract from the full financial report for the year ended 31 May 2018 and has been derived from and is consistent with the full financial report of Mackay Sugar Limited.

This declaration is made in accordance with a resolution of the Board of Directors of Mackay Sugar Limited.



MR Day
Director (Chairman)

Dated: 4 October 2018



PA Manning
Director
(Deputy Chairman)



Partners

Darryl Camilleri FCA, CTA
Chris Sammut FCA
Paul Hinton CA
Therese Scollon CA
Geoff O'Connor CPA, Affiliate
John Lavis CA, CTA
Ryan Leach CA
Brenton Lazzarini CA

Mackay Sugar Limited

Independent Audit Report to the members of Mackay Sugar Limited

Report on the Concise Financial Report

Opinion

The concise financial report, which comprises the consolidated statement of financial position as at 31 May 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited financial report of Mackay Sugar Limited for the year ended 31 May 2018.

In our opinion, the accompanying concise financial report, is consistent, in all material respects, with the audited financial report, in accordance with AASB 1039 : *Concise Financial Reports* and the *Corporations Act 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Concise Financial Report

The concise financial report does not contain all the disclosures required by Australian Accounting Standards applied in the preparation of the audited financial report of Mackay Sugar Limited. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the audited financial report and the auditor's report thereon. The concise financial report and the audited financial report do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mackay Sugar Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Liability limited by a scheme approved under professional standards legislation

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The Audited Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial report in our report dated 4th October 2018. That report also included an emphasis of matter drawing attention to the significant deficiency in net current assets of \$157 million, and the uncertainty of whether the company would be able to continue as a going concern without the continued support of the company's financiers. If this is the case, the company may be required to release assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The financial statements do not disclose this fact and do not include any adjustments relating to these amounts that might be necessary should the company not continue as a going concern.


Directors' Responsibility for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with AASB 1039 : *Concise Financial Reports* and the *Corporations Act 2001*.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the concise financial report is consistent, in all material respects, with the audited financial report based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 : *Engagements to Report on Summary Financial Statements* .

Auditor's name and signature: Darryl Camilleri



Name of firm: Bennett Partners

Address: 122 Wood St, Mackay

Dated this 4th day of October 2018

Mackay Sugar Limited

ABN 12 057 463 671

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Services Pty Ltd**

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