



Mackay Sugar Limited

Financial Statements Half-year ended 30 November 2018



Mackay Sugar Limited
ABN 12 057 463 671

**Consolidated statement of profit or loss
for the 6 months ended 30 November 2018**

Consolidated Group			
	Note	November 2018 \$'000	Restated* November 2017 \$'000
Revenue from operating activities			
Revenue	2 (a)	382 545	425 829
Finance revenue	2 (b)	215	176
Total revenue		382 760	426 005
Changes in inventories of finished goods	5 (b)	2 984	4 402
Cost of sales		(217 378)	(249 849)
Gross profit		168 366	180 558
Revenue from non-operating activities	2 (c)	1	268
Maintenance expenses		(26 151)	(24 447)
Operating expenses		(70 915)	(71 653)
Administration expenses		(22 181)	(24 351)
Distribution and marketing expenses		(4 381)	(5 059)
Depreciation		(7 894)	(8 124)
Finance costs	3 (a)	(7 971)	(6 502)
Other expenses	3 (b)	(124)	(18)
Loss on revaluation of property, plant and equipment	15	(51 000)	-
Share of net profit of associate and joint venture		5 847	5 809
Profit before income tax		(16 403)	46 481
Income tax expense		-	-
Profit for the period		(16 403)	46 481
Profit attributable to:			
Members of the Company		(16 403)	46 481
Non-controlling interests		-	-
Profit for the period		(16 403)	46 481

**Refer note 1(e) for details regarding the restatement as a result of a change in accounting policy.*



Mackay Sugar Limited
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**Consolidated statement of comprehensive income
for the 6 months ended 30 November 2018**

Consolidated Group		
Note	November 2018 \$'000	Restated* November 2017 \$'000
Profit for the period	(16 403)	46 481
Other comprehensive income or loss		
Items that may be reclassified subsequently to profit or loss:		
Gain on remeasurement of financial assets	839	155
Fair value movements on cash flow hedges	(14 059)	(5 140)
Exchange differences on translation of foreign associated company	678	(1 733)
Share of other comprehensive income/(loss) of associated company	412	154
Share of other comprehensive income/(loss) of joint venture	(150)	(625)
	(12 280)	(7 189)
Income tax relating to components of other comprehensive income/(loss)	-	-
Other comprehensive income/(loss) for the period, net of tax	(12 280)	(7 189)
Total comprehensive income/(loss) for the period.....	(28 683)	39 292
Total comprehensive income/(loss) attributable to:		
Members of the Company	(28 683)	39 292
Non-controlling interests	-	-
Total comprehensive income/(loss) for the period.....	(28 683)	39 292

**Refer note 1(e) for details regarding the restatement as a result of a change in accounting policy.*



Mackay Sugar Limited
ABN 12 057 463 671

**Consolidated statement of financial position
as at 30 November 2018**

		Consolidated Group	
	Note	November 2018 \$'000	Restated* May 2018 \$'000
Assets			
Current assets			
Cash and cash equivalents		29 646	14 793
Trade and other receivables		69 054	21 384
Contract Assets		73 996	-
Other financial assets		17 804	15 707
Inventories		16 310	13 308
Other assets		2 575	452
Total current assets		209 385	65 644
Non-current assets			
Trade and other receivables		1 449	550
Other financial assets		36 468	34 796
Investments accounted for using the equity method		80 268	81 315
Property, plant and equipment		249 402	304 853
Investment properties		3 060	3 074
Total non-current assets		370 647	424 588
Total assets		580 032	490 232
Liabilities			
Current liabilities			
Trade and other payables		89 211	45 055
Interest bearing liabilities		226 449	162 671
Other liabilities		481	3 835
Other financial liabilities		1 805	364
Employee benefits		13 296	10 547
Total current liabilities		331 242	222 472
Non-current liabilities			
Interest bearing liabilities		2 721	3 017
Other liabilities	6	39 364	29 529
Other financial liabilities		27 949	27 473
Employee benefits		2 450	2 752
Total non-current liabilities		72 484	62 771
Total liabilities		403 726	285 243
Net assets		176 306	204 989
Equity			
Issued capital	10	16 498	16 498
Reserves		19 570	31 850
Retained profit		140 238	156 641
Total equity		176 306	204 989

*Refer note 1(e) for details regarding the restatement as a result of a change in accounting policy.



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**Consolidated statement of changes in equity
for the 6 months ended 30 November 2018**

	Note	Ordinary share capital	Retained profit	Asset revaluation reserve	Financial asset revaluation reserve	Foreign currency translation reserve	Hedging reserve	Total
Consolidated Group								
Balance at 1 June 2017		\$'000 16 498	\$'000 177 068	\$'000 -	\$'000 6 107	\$'000 3 732	\$'000 12 874	\$'000 216 279
Profit attributable to shareholders of the Company		-	46 481	-	-	-	-	46 481
Other comprehensive income/(loss) for the period		-	-	-	155	(1 733)	(5 611)	(7 189)
Total comprehensive income/(loss) for the period..		-	46 481	-	155	(1 733)	(5 611)	39 292
<i>Transactions with owners in their capacity as owners:</i>								
Shares issued during the period		-	-	-	-	-	-	-
Dividends declared during the period.....4(i)		-	-	-	-	-	-	-
Balance at 30 November 2017		16 498	223 549	-	6 262	1 999	7 263	255 571
Consolidated Group								
Balance at 1 June 2018		16 498	156 641	-	6 992	2 700	22 158	204 989
Profit attributable to shareholders of the Company		-	(16 403)	-	-	-	-	(16 403)
Other comprehensive income/(loss) for the period		-	-	-	839	678	(13 797)	(12 280)
Total comprehensive income/(loss) for the period..		-	(16 403)	-	839	678	(13 797)	(28 683)
<i>Transactions with owners in their capacity as owners:</i>								
Shares issued during the period		-	-	-	-	-	-	-
Dividends declared during the period.....4(i)		-	-	-	-	-	-	-
Balance at 30 November 2018		16 498	140 238	-	7 831	3 378	8 361	176 306



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**Consolidated statement of cash flows
for the 6 months ended 30 November 2018**

Consolidated Group			
	Note	November 2018 \$'000	Restated* November 2017 \$'000
Cash flow from operating activities			
Receipts from sugar and other sales.....		257 240	375 280
Payments to suppliers for cane supplied.....		(175 425)	(196 084)
Payments to other suppliers and employees.....		(138 071)	(138 723)
Distributions received from associated entities.....		3 490	3 400
Interest received.....		216	176
Other revenue		6 647	7 620
Finance costs.....		(7 136)	(6 058)
Net cash provided by operating activities.....	12(a)	(53 039)	45 611
Cash flow from investing activities			
Purchase of financial assets - shares.....		-	-
Distributions received from / (Contributions made to) associated entities...		7 793	(16 472)
Payments for property, plant and equipment.....		(3 432)	(4 587)
Proceeds on sale of subsidiary		-	50
Proceeds on sale of property, plant and equipment.....		1	4
Proceeds on sale of property held-for-sale.....		-	280
Net cash used in investing activities.....		4 362	(20 725)
Cash flow from financing activities			
Dividends paid.....		-	-
Proceeds from interest bearing activities.....		125 849	32 964
Repayment of interest bearing activities.....		(60 611)	(37 964)
Loan establishment costs capitalised		-	(133)
Lease liability payments.....		(294)	(294)
Decrease/(Increase) in growers' loans.....		407	391
Decrease in unsecured interest bearing deposits.....		(29)	(15)
Decrease in selected-term unsecured notes		(1 792)	(5 053)
Net cash provided by/(used in) financing activities.....		63 530	(10 104)
Net increase in cash and cash equivalents		14 853	14 782
Cash and cash equivalents at 1 June		14 793	18 264
Cash and cash equivalents at 30 November.....		29 646	33 046

*Refer note 1(e) for details regarding the restatement as a result of a change in accounting policy.



Mackay Sugar Limited
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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 1: Summary of significant accounting policies

(a) Statement of compliance

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.

These general purpose interim financial statements for the half-year reporting period ended 30 November 2018 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the most recent annual financial report and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange of assets. The presentation currency used in this concise financial report is Australian dollars and all amounts are noted in Australian dollars, unless otherwise stated. Mackay Sugar Limited has applied for relief available to it under ASIC Instrument 2016/191 and accordingly amounts in this half-year report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

The consolidated financial statements have been prepared on a going concern basis, which contemplates future profit expectations and cash flow projections. It also assumes the continuing support from financiers and the continuity of normal business activities including the realisation of assets and the settlement of liabilities in the ordinary course of business.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2018 annual financial report for the financial year ended 31 May 2018, except for the impact of new and amended accounting standards and interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 1: Summary of significant accounting policies (continued)

(c) New and revised accounting requirements applicable to the current half-year reporting period

New and revised Standards and Interpretations issued by the AASB that are effective for the first time for the current half year include:

- AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128
- AASB 15 Revenue from Contracts with Customers
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 Revenue from Contracts with Customers
- AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15
- AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 Revenue from Contracts with Customers
- AASB 9 Financial Instruments (December 2014)
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
- AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
- AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4

The Group has adopted all new standards and interpretations issued by the AASB which became mandatorily applicable from 1 June 2018 that are relevant to the entity.

The Group early adopted 'AASB 9 Financial Instruments (2010)' during the year ended 31 May 2015. The additional provisions introduced by 'AASB 9 Financial Instruments (December 2014)' did not have a material impact on the amounts recognised in the Group's financial statements.

Due to the adoption of 'AASB 15 Revenue from Contracts with Customers' in the current reporting period, the Group had to change its accounting policies and make retrospective adjustments to the amounts reported in previous periods. The impact of the adoption of AASB 15 and the new accounting policies are disclosed in notes 1(e), (f) and (g) below. The other new or amended standards listed above did not have a material impact on the Group's accounting policies or on the amounts recognised in the Group's financial statements.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 1: Summary of significant accounting policies (continued)

(d) New accounting standards for application in future years

The Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
AASB 16 Leases	<p>This standard replaces AASB 117 Leases. The standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases. The standard also provides new guidance on the application of the definition of a lease and on sale and lease back accounting.</p> <p>The amendments are effective 1st January 2019.</p>	<p>AASB 16 will be required to be first adopted and applied for the year ending 31st May 2020. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16. The Group has identified a number of service contracts that could potentially include some large value embedded leases under AASB 16.</p> <p>At the date of this report, a detailed analysis has not been undertaken to determine the extent of the changes on the financial statements. The majority of this work will be undertaken in the February 2019 to May 2019 period and the results will be reported in the May 2019 full financial report.</p>
<p>AASB Interpretation 23 Uncertainty over Income Tax Treatments</p> <p>AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</p>	<p>This interpretation clarifies how the recognition and measurement requirements of AASB 112 Income Taxes are applied where there is uncertainty over income tax treatments.</p> <p>The amendments are effective 1st January 2019.</p>	<p>When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.</p>



**Notes to the financial statements
for the 6 months ended 30 November 2018**

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
AASB 17 Insurance Contracts	<p>This standard replaces AASB 4 and requires all insurance contracts to be accounted for in a consistent manner and requires insurance obligations to be accounted for using current values. The standard introduces new contract measurement principles and contains a lower level of aggregation, changes to contract boundaries and valuation approaches.</p> <p>The amendments are effective 1st January 2021.</p>	When these amendments are first adopted for the year ending 31st May 2022, there will be no material impact on the transactions and balances recognised in the financial statements.
<p>AASB 1059 Service Concession Arrangements: Grantors</p> <p>AASB 2018-5 Amendments to Australian Accounting Standards – Deferral of AASB 1059</p>	<p>This new standard requires a grantor to recognise a service concession asset in a service concession arrangement where it controls the asset. A corresponding financial liability and/or grant of right liability is also recognised depending on the nature of the consideration exchanged.</p> <p>The amendments are effective 1st January 2020.</p>	When these amendments are first adopted for the year ending 31st May 2021, there will be no material impact on the transactions and balances recognised in the financial statements.
<p>AASB 1058 Income of Not-for-Profit Entities</p> <p>AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</p> <p>AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</p>	<p>These standards insert Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 Financial Instruments (2014) and AASB 15 Revenue from Contracts with Customers.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
<p>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</p> <p>AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</p> <p>AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</p>	<p>The standard addresses an inconsistency between AASB10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures. On a sale or contribution of assets to a joint venture or associate, or loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business as defined in AASB3 Business Combinations.</p> <p>The amendments are effective 1st January 2022.</p>	<p>When these amendments are first adopted for the year ending 31st May 2023, there will be no material impact on the transactions and balances recognised in the financial statements.</p>
<p>AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</p>	<p>This standard amends AASB 9 (2014) to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.</p> <p>The amendments are effective 1st January 2019.</p>	<p>When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.</p>



**Notes to the financial statements
for the 6 months ended 30 November 2018**

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	<p>AASB 2017-7 amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial instruments before applying the loss allocation and impairment requirements in AASB 128.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	<p>This standard makes a number of relatively minor amendments to AASB 3 Business Combinations, AASB11 Joint Arrangements, AASB 12 Income Taxes, and AASB 23 Borrowing Costs.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.
AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements	<p>This standard makes amendments to AASB 16 Leases and AASB 1058 Income of Not-for-Profit Entities. The amendments establish reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	<p>This standard amends AASB 119 Employee Benefits to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the remeasurement of the net defined benefit liability/asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.
AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors	<p>This standard amends AASB 15 to add requirements and authoritative implementation guidance for application by not-for-profit public sector licensors to transactions involving the issue of licences.</p> <p>The amendments are effective 1st January 2019.</p>	When these amendments are first adopted for the year ending 31st May 2020, there will be no material impact on the transactions and balances recognised in the financial statements.

The Group does not currently intend to adopt any of these pronouncements before their effective dates.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 1: Summary of significant accounting policies (continued)

(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers

This note explains the impact of the adoption of AASB 15 Revenue from Contracts with Customers on the Group's financial statements for the half-year period, including the relevant transition disclosures and changes to the comparative amounts presented in this report.

Transition to AASB 15

AASB15 provides a choice between full retrospective adoption (apply retrospectively to each prior reporting period, adjustment is at the start of the earliest comparative period presented, comparative period shows all contracts and there is a choice of 4 expedients available) or modified retrospective adoption (Cumulative effect shown as an adjustment to retained earnings, adjustment is at the date of initial application, comparative periods show amounts of open contracts only and there is only 1 expedient available).

The Group has applied the full retrospective method of adoption of AASB 15 and has elected to apply the following practical expedients:

Practical expedient 1: For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period, or are complete at the beginning of the earliest year presented.

Practical expedient 3: For contracts that were modified before the beginning of the earliest period presented, an entity shall reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations.

Practical expedient 4: For all reporting periods before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Group has not applied the following practical expedient:

Practical expedient 2: For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting period.

Changes to comparative amounts and opening balances on Transition to AASB 15

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. The following tables present the adjustments recognised for each individual line item in the financial statements. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Adjustments on transition to AASB 15:

The following tables present the changes that were required on transition to AASB 15 in determining the opening asset, liability and equity balances as at the date of initial application (i.e. 1 June 2018).

Statement of financial position (extract)	31 May 2017 As originally Presented \$'000	AASB 15 Adjustments \$'000	AASB 15 Adjustments Explanation Reference	31 May 2017 Restated \$'000
Current assets				
Trade and other receivables	33 091	(2 108)	1	30 983
Inventories	14 687	2 108	1	16 795
Total current assets	78 946	-		78 946
Net assets / Total equity	216 279	-		216 279

Details of adjustments:

(1) Change in timing of LGC revenue (2 108)

Statement of financial position (extract)	31 May 2018 As originally presented \$'000	AASB 15 Adjustments \$'000	AASB 15 Adjustments Explanation Reference	31 May 2018 Restated \$'000
Current assets				
Trade and other receivables	21 711	(327)	1	21 384
Inventories	12 981	327	1	13 308
Total current assets	65 644	-		65 644
Net assets / Total equity	204 989	-		204 989

Details of adjustments:

(1) Change in timing of LGC revenue (327)

The above retrospective changes required by AASB 15 to the previous financial years ended 31 May 2017 and 31 May 2018 did not result in any change to the opening retained earnings at 1 June 2017 and 1 June 2018.



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**Notes to the financial statements
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(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Restatement of comparatives for half-year period ended 30 November 2017:

The following tables present the changes that would have been required if the amounts presented in the previous half-year period ended 30 November 2017 were prepared in accordance with AASB 15.

Statement of financial position (extract) As at 30 November 2017	30 Nov 2017 As originally presented \$'000	AASB 15 Adjustments \$'000	AASB 15 Adjustments Explanation Reference	30 Nov 2017 Restated \$'000
Current assets				
Trade and other receivables	82 637	(2 876)	1	79 761
Contract assets	-	16 339	7	16 339
Inventories	119 198	(98 049)	1,5	21 149
Total current assets	246 457	(84 586)		161 871
Current liabilities				
Other liabilities	99 265	(98 884)	4	381
Total current liabilities	396 426	(98 884)		297 542
Net assets	241 273	14 298		255 571
Equity				
Reserves	22 648	(7 124)	6	15 524
Retained profit	202 127	21 422		223 549
Total equity	241 273	14 298		255 571

Details of adjustments:

(1) Change in timing of LGC revenue	(2 876)
(4) Reversal of deferred sugar proceeds	(98 884)
(5) Reversal of sugar stock on hand	(100 925)
(6) Change in accounting treatment of unrealised hedging gains	(7 124)
(7) Accrual of estimated sugar sale proceeds	16 339



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**Notes to the financial statements
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(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Restatement of comparatives for half-year period ended 30 November 2017 (continued):

Statement of profit or loss (extract) For half-year period ended 30 Nov 2017	30 Nov 2017 As originally presented \$'000	AASB 15 Adjustments \$'000	AASB 15 Adjustments Explanation Reference	30 Nov 2017 Restated \$'000
Revenue from operating activities				
Revenue	304 143	121 686	1,2,3,4,6,7	425 829
Total revenue	304 319	121 686		426 005
Changes in inventories of finished goods	104 559	(100 157)	1,2,5	4 402
Gross profit	159 029	21 529		180 558
Maintenance expenses	(24 378)	(69)	3	(24 447)
Operating expenses	(71 615)	(38)	3	(71 653)
Profit for the period	25 059	21 422		46 481
Other comprehensive income or loss				
Fair value movements on cash flow hedges	1 984	(7 124)	6	(5 140)
Total comprehensive income/loss for period	24 994	14 298		39 292

Details of adjustments:

(1) Change in timing of LGC revenue	(2 876)
(2) Change in timing of LGC revenue	2108
(3) Change in classification of income from service contracts	107
(4) Reversal of deferred sugar proceeds	98 884
(5) Reversal of sugar stock on hand	(100 925)
(6) Change in accounting treatment of unrealised hedging gains	7 124
(7) Accrual of estimated sugar sale proceeds	16 339



**Notes to the financial statements
for the 6 months ended 30 November 2018**

(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Explanation of changes required by AASB 15:

An explanation of the retrospective changes required by AASB 15 set out in the above tables is as follows:

(1 & 2) Change in timing of revenue recognition of Large-scale generation certificates (LGCs):

The Group obtains revenue from a renewable energy incentive scheme through the generation of electricity from sugar cane (bagasse) via LGCs. The Group creates LGCs from its electricity generation on a continuous basis during the year. The LGCs are registered and transferred to the customer in batches (usually quarterly) during the year. The Group previously recognised revenue from the production of LGCs as they were created through the recognition of a receivable for the LGCs created but not yet registered and transferred to the customer at the end of the period.

Under AASB 15, the Group has determined that the transfer of control to the customer occurs when the LGCs are registered and transferred to the customer. Therefore, revenue can only be recognised at the point in time when batches of LGCs are registered and transferred to the customer. The registration and transfer process takes place a number of months after the LGCs are created. The LGCs created but not yet transferred to the customer as at the end of the period are required to be accounted for as finished goods inventory under AASB 15. These LGCs will be recognised in the profit or loss in 'Changes in inventories of finished goods' at the lower of cost and net realisable value. The revenue from the sale of these LGCs is then recognised in the following period and will be offset by the opening stock value.

A summary of the effect of the above change in revenue recognition of the LGCs created but not yet transferred to the customer at the end of the period is as follows:

(1) Change in recognition from revenue to finished goods inventory	Y/E 31 May 2017	HY/E 30 Nov 2017	Y/E 31 May 2018
	\$'000	\$'000	\$'000
LGC receivable under AASB118			
- Expected sale amount	2 108	2 876	327
LGC finished goods inventory value – AASB15	2 108	2 876	327
Net realisable value of LGCs	2 108	2 876	327
Cost value of LGCs – AASB 102	2 507	3 653	534

(2) Recognition as revenue in the following period

Revenue – LGC sales	-	2 108	2 108
Changes in inventories of finished goods			
- Opening inventory value	-	(2 108)	(2 108)
Net change in Profit or loss for period	-	-	-



**Notes to the financial statements
for the 6 months ended 30 November 2018**

(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Explanation of changes required by AASB 15 (continued):

(3) Change in income/expense classification of services revenue

The Group provides various services to a sugar refinery located next to one of its raw sugar mills. Under AASB 118, services revenue is recognised using the stage-of-completion method and revenue is recognised in the reporting periods in which the services are rendered. The consideration is allocated on a relative fair value basis between the different services provided.

Under AASB 15, the total consideration in the service contracts has been allocated to all services based on their stand-alone selling prices. The stand-alone selling prices have been determined based on the list prices at which the Group would sell the services in separate transactions.

The Group previously recognised some amounts received under the services contract as recoveries against the costs that were incurred in providing the services. These amounts have been recognised as services revenue under AASB 15. Some income classifications have also been changed under AASB 15 to more accurately reflect the type of revenue received under the contract. A summary of the changes in classification within the statement of profit or loss are as follows:

Income/expense classification		Half Y/E 30 Nov 2017
		Reclassification
		\$'000
Services revenue	Increase in revenue	88
Rental revenue	Increase in revenue	56
Electricity revenue	Decrease in revenue	(37)
Maintenance expenses	Increase in expenses	(69)
Operating expenses	Increase in expenses	(38)
Net change in Profit or loss for period		-

Change in recognition of sugar sales (AASB 15 adjustments 4 to 7 explained further below)

The Group sells some sugar to a customer that is stored for a period of time on behalf of the customer before it is physically transported to the customer's premises. Under AASB 118, the Group previously recognised revenue for this sugar when the sugar was transported to the customer's premises. This was due to the majority of the risks of ownership (title and insurance) remaining with the Group while the sugar was held in storage. The sugar was accounted for as finished goods inventory while it was held in storage on behalf of the customer. Any income received from the customer while the sugar was held in storage was accounted for as an 'Other liability – deferred sugar proceeds'.

Under AASB 15, the Group has determined that the customer has obtained control of the sugar while it is being held in storage on behalf of the customer. That is, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits of the sugar. Accordingly, under AASB 15, this sugar is required to be recognised as revenue under a bill-and-hold arrangement.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

(e) Impact of adoption of AASB 15 Revenue from Contracts with Customers (continued)

Explanation of changes required by AASB 15 (continued):

(4) Reversal of recognition of deferred sugar proceeds at 30 November 2017

Sugar proceeds of \$98,884,000 in relation to sugar held on behalf of a customer were deferred to other liabilities in the statement of financial position at 30 November 2017 under AASB 118. These sugar sales are required to be recognised as revenue in the statement of profit or loss under AASB 15.

(5) Reversal of sugar stock on hand at 30 November 2017

Sugar held in storage on behalf of a customer was recognised as finished goods stock on hand for \$100,925,000 in the statement of financial position at 30 November 2017 under AASB 118. This sugar is required to be recognised as revenue in the statement of profit or loss under AASB 15.

(6) Recognition of unrealised hedging gains on sugar held on behalf of customer at 30 November 2017

The Group applies hedge accounting under AASB 9 for various derivatives undertaken in relation to sugar sales. The unrealised mark-to-market hedging gain at 30 November 2017 in relation to the sugar held on behalf of customer of \$7,124,000 was previously recognised in the hedge reserve as this sugar was not required to be recognised as revenue under AASB 118.

As this sugar is required to be recognised as revenue under AASB 15, the unrealised hedging gain in relation to this sugar should be recognised as revenue. Accordingly, the amount of \$7,124,000 previously recognised in the hedge reserve has been recognised as revenue under AASB 15.

(7) Recognition of contract asset for estimated sale proceeds owing on the sugar held on behalf of customer at 30 November 2017

Under AASB 15, revenue of \$16,339,000 has been accrued as a contract asset in current assets in the statement of financial position for the estimated sale proceeds owing on the sugar held on behalf of a customer as at 30 November 2017.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

(f) Explanation of application of AASB 15 Revenue from Contracts with Customers

The accounting policies and methods of computation adopted in the half-year financial statements differ compared to the most recent annual financial statements due to the adoption of AASB15 Revenue from contracts with Customers which replaces AASB118.

The nature of the change is the manner in which revenue is recognised. One of the key changes is that revenue is recognised based on control of the goods or services as opposed to the previous standard which was based on the transfer of the risks and rewards of ownership. Transactions previously recognised as stock and prepayments under AASB118 will now be recognised as revenue and contract assets or receivables depending on whether the product/service has been delivered.

The requirements of AASB15 and how they apply to these financial statements is explained below:

Application of the AASB15 'five step model' to each of the revenue streams

The key process to the implementation of AASB15 is application of a five step model to revenue streams as set out below. The Group's revenue streams for its revenue contracts have been identified and each of the steps in the 5 step model has been applied to these contracts as summarised in the table below:

Step 1: Identify the contract with a customer

In most cases this is straightforward. However, a 'contract' does not have to be a formal written document, but can also be verbal or implied, depending on the customary form for the specific arrangement. For the purpose of the standard, a contract exists if the parties rights can be identified, they agree and are committed to perform their respective obligations, and the payment terms can be identified. Hence, although there is no written contract in a standard retail sale, such transaction is still considered to arise from a contract with a customer. Usually, each contract is accounted for separately, but it may be necessary to either combine or separate multiple contracts depending on the substance of the arrangement.

Step 2: Identify the performance obligations in the contract

At contract inception, it is necessary to identify all the distinct performance obligations within the contract. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer.

Step 3: Determine the transaction price

An entity must determine the amount of consideration it expects to receive in exchange for transferring promised goods or services to a customer. Usually, the transaction price is a fixed amount. However, the transaction price can vary because of discounts, rebates, price concessions, refunds, volume bonuses, or other factors. An entity should consider the effects of variable consideration and include those elements in the transaction price. Those variable elements should only be included where 'it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved'.

When a contract has a significant financing element, the effects of the time value of money are taken into account by adjusting the transaction price and recognising interest income over the financing period. Separately recognising the effect of discounting is not required if the period between the supply of the goods or services and payment is less than one year.



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**Notes to the financial statements
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(f) Explanation of application of AASB 15 Revenue from Contracts with Customers (continued)

Step 4: Allocate the transaction price to the performance obligations

Where a contract contains more than one distinct performance obligation the transaction price determined in step 3 is allocated to each distinct performance obligation on the basis of the relative stand-alone selling price. The best evidence of stand-alone selling price is the price at which the good or service is sold separately by the entity.

If a stand-alone selling price is not directly observable, an entity should estimate a stand-alone value taking into account market conditions, entity-specific factors and information about the customer or class of customer. This could be done by using an 'adjusted market assessment approach' which may include referring to competitors' prices for similar goods or services; or an 'expected cost plus margin approach' in which an entity estimates its costs to satisfy that performance obligation and then adds an appropriate margin.

An entity should not account for components within multiple performance obligations as representing 'free' goods or services and attributing no transaction price to them.

Step 5: Recognise revenue as the performance obligations are satisfied

An entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer).

For revenue recognised at a point in time, AASB 15 requires the entity to determine that point in time by reference to when control of the goods transfer to the customer, whereas AASB 118 focuses on the transfer of risks and rewards of the goods. This change may cause the timing of some revenue items to change under the new standard.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

(f) Explanation of application of AASB 15 Revenue from Contracts with Customers (continued)

A summary of the application of the 5 step model to the Group's revenue contracts is presented below:

Source/Stream of Revenue	(1)Contractual Arrangement with a customer	(2)Performance Obligations in the contract	(3)Transaction Price	(4)Allocate the transaction price to the performance obligation	(5)Recognise revenue as the performance obligations are satisfied either at a point in time or over a period of time
Raw Sugar sales (1)	Sale of raw sugar as per agreement	Deliver raw sugar to the sugar terminal or to the refinery	Average price per tonne based on weighted average priced and unpriced	The transaction price is based on the average price per tonne delivered	Over time
Raw Sugar sales (2)	Sale of raw sugar as per agreement	Deliver raw sugar to the sugar terminal	Average price per tonne based on weighted average priced and unpriced	The transaction price is based on the average price per IPS tonne delivered plus brand allowance	Over time
Raw Sugar sales (3)	Sale of raw sugar as per agreement	Deliver raw sugar to the sugar terminal	Average price per tonne based on weighted average priced and unpriced.	The transaction price is based on the average price per IPS tonne delivered	Over time
Molasses sales (1)	Sale of molasses as per agreement	Deliver molasses to the terminal	Average price per tonne	The transaction price is based on the average price per tonne sold	Over time
Molasses sales (2)	Sale of molasses as per agreement	Deliver molasses to the molasses tanks	Average price per tonne	The transaction price is based on the average price per tonne sold	Over time
Molasses transport and storage fees	Transport molasses as per agreement	Deliver molasses to customer's Ethanol plant	Service fee per tonne as set out in contract	The transaction price is based on the contract price per tonne delivered	Over time
Electricity Export sales	Sale of electricity as per agreement	Supply electricity when required per agreement	Unit price based on contract price	The transaction price is based on the contract price	Over time
Electricity LGCs sales	Sale of electricity LGC's as per agreement	Deliver LGC certificates per agreement	Unit price based on contract price	The transaction price is based on the contract price	Point in time
Refinery services revenue	Supply services as per agreement	Supply services as and when required per agreement	Service fees per contract	The transaction price is based on the services provided	Over time



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

(g) Changes in accounting policies

Revenue from contracts with customers

(i) Sale of goods – Raw Sugar and Molasses products

The group manufactures and sells raw sugar and molasses products to various customers. Revenue is recognised when control of the product has transferred to the customer. Control passes when the product is delivered to the customer's site, their designated storage facility, or a shipping vessel organised by the customer. Control only transfers when it has been assessed that the customer has full discretion to whom they sell and at what price and there are no unfulfilled obligations that could affect the customer's acceptance of the product.

The products are delivered to the customer on a continuous basis over the contract periods. The contracts generally specify for a minimum and/or maximum nominated quantity to be supplied over the contract period. Consideration is received on the basis of a price per tonne of product delivered during the relevant delivery period. Each tonne of sugar/molasses is generally homogenous in nature and a set uniform price per tonne of sugar/molasses is received over the total quantity delivered. Accordingly, the performance obligations in the contracts are accounted for as a number of series of distinct goods transferred over time based on the customer, the product and the physical location of delivery. Where control has not yet transferred to the customer, the products are accounted for as finished goods inventory while they are held in storage by the Company. Inventory is not recorded for products that are delivered within a few hours of production.

In some cases, special brands of product are requested by customers, which are accounted for as a separate series of performance obligations. In some cases, penalties or premiums can be applied based on the quality of the product supplied. These conditions have not been determined to be separate performance obligations and are accounted for as variable consideration in the form of pricing adjustments.

Revenue from sugar/molasses contracts is highly variable over the contract period being based on variable production quantities and variable prices which are based on fluctuating world sugar/molasses prices and exchange rates. At the early stages of the contract, variable consideration is significant. As the contracts progress over the contract period, the variable consideration is reduced as quantities and prices are finalised. The outstanding variable consideration is assessed in detail at balance dates to ensure there is no significant over statement of the variable consideration recognised.

For some customers, progress payments are received as the product is supplied. Revenue is accrued at balance dates up to the final estimated sale amount expected to be received for the product. Where product has been delivered and only the finalisation of pricing remains before full consideration is received, the variable consideration is accrued as a receivable. Product held on behalf of customers before physical delivery, and where control has been determined to have transferred to the customer, is accounted for as a 'bill-and-hold arrangement'. Revenue accrued under these arrangements is recognised as a contract asset.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

(g) Changes in accounting policies (continued)

(ii) Sale of goods - Electricity/Power

The group produces and sells various types of power such as electricity and steam to customers. Revenue is recognised when control of the electricity has transferred to the customer. Control passes as soon as the electricity is generated as it is unable to be stored and is immediately consumed by the customer when it is delivered into the customer's electricity grid or manufacturing facilities.

The electricity products are delivered to the customer on a continuous basis over the contract periods. Consideration is received on the basis of a price per unit of electricity delivered during the relevant delivery period. Each unit delivered is generally homogenous in nature and a set uniform price per unit is received over the total quantity delivered. Accordingly, the performance obligations in the contracts are accounted for as a number of series of distinct goods transferred over time based on the customer, the product and the location of connection. Variable consideration is minimal as pricing is generally fixed at the beginning of the contract period and billing occurs on a regular basis. Revenue for the outstanding quantities supplied at balance dates is accrued as a receivable.

(iii) Sale of goods – Large-scale generation certificates (LGC's)

As part of its electricity generation, the group creates and sells LGC's to customers. Revenue is recognised when control of the LGC's has transferred to the customer. Control passes when the LGC certificates are registered and transferred to the customer. The LGCs are created on a continuous basis over the contract periods, but are registered and transferred to the customer in batches. Accordingly, revenue is recognised only at the point in time in which the registration and transfer process takes place. The registration and transfer process takes place a number of months after the LGCs are created. The LGCs created but not yet transferred to the customer at balance dates are accounted for as finished goods inventory. Revenue for the outstanding LGCs that have been transferred to the customer is accrued as a receivable.

(iv) Rendering of Services

The group provides various services associated with its operations to customers such as transport services and support services to customer's manufacturing facilities. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. Some contracts include multiple deliverables. For these contracts, the transaction prices are allocated to each separate performance obligation based on their stand-alone selling prices. Customers are generally invoiced weekly or monthly for the services provided during those periods. Revenue that is outstanding at balance dates is accrued as a receivable.

(v) Financing components

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

(g) Changes in accounting policies (continued)

Segment reporting

Disaggregation of revenue

Entities are required to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Contracts can be disaggregated into various categories for example type of goods or services, geographic regions, market or type of customer, type of contract, contract duration or sales channel.

In determining which categories are applicable to the group, it has been determined that the types of goods or services together with the timing of transfer of goods or services were the appropriate categories to reflect the impact of revenue from contracts with customers.

(i) Type of goods or services

- The types of goods or services have been identified as being Raw sugar sales, Electricity sales, Molasses sales and services, Sundry sales and Refinery services.

(ii) The timing of transfer have been categorised into at a point in time or over time

- Revenue is recognised over time for all of the Group's revenue streams with the exception of revenue from the sale of LGC's and some sundry sales, which are recognised at a point in time.

(h) Critical accounting estimates and judgements

The critical accounting estimates and judgments are consistent with those applied and disclosed in the May 2018 annual accounts with the exception of the effects of adopting AASB15 as described below.

Critical judgements in determining the timing of satisfaction of performance obligations has been applied to all revenue contracts and in particular the transactions for products that have not been delivered to the customer at the period end in determining whether control has passed to the customer. Management are satisfied that the terms of the agreement are clear in that control passes to the customer as and when the sugar is delivered to the terminal as the customer has the right to draw the sugar as and when they require and have exclusive rights to the sugar.

Key sources of uncertainty

Some the group's revenue contracts have significant variable consideration outstanding at balance dates. A significant amount of estimated revenue is therefore required to be recognised for these contracts. Under the variable consideration constraint, management are required to constrain variable consideration recognition to an amount that would not result in a significant reversal of revenue in subsequent accounting periods. As the variable consideration is subject to factors outside of the group's control, such as fluctuating global world sugar and molasses prices and exchange rates, significant judgement is required in assessing the amount of variable consideration to be recognised.

The financial report was authorised for issue on 1 March 2019 by the board of directors.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 2: Revenue

	Note	November 2018 \$'000	November 2017 \$'000
(a) Revenue from operating activities			
Sale of goods.....		370 516	419 951
Services revenue		279	231
Dividends received.....		1 113	1 047
Government grants	2(d)	423	387
Rental revenue		325	233
Insurance claims.....		3 877	3 891
Recoveries.....		10	10
Other revenue.....		2	79
		382 545	425 829
(b) Finance revenue			
Bank interest received – other corporations.....		214	175
Loan interest received – other persons.....		1	1
		215	176
(c) Revenue from non-operating activities			
Gain on disposal of property, plant and equipment.....		1	4
Gain on disposal of property held-for-sale		-	214
Gain on sale of subsidiary		-	50
		1	268
(d) Government grants			
Government grants received or receivable:			
Government grants received in relation to capital projects		874	1 520
Government grants received allocated directly to income		42	6
		916	1 526
Government grants included in income:			
Government grants allocated directly to income		42	6
Deferred Government grants allocated to income.....		381	381
		423	387



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 3: Items included in profit for the period

	November 2018 \$'000	November 2017 \$'000
(a) Finance costs		
Interest and charges on bank loans	2 364	2 335
Interest on non-bank loans	28	37
Lease interest expenses	46	55
Loan commitment fees	368	174
Interest on seasonal finance QSL facility	1 005	-
Interest on seasonal finance bank loans	146	274
Interest hedging expenses – other corporations	(22)	18
Interest on short-term interest bearing deposits	1	2
Interest on selected-term unsecured notes	195	345
Interest on fixed-rate medium-term unsecured notes (bonds)	1 938	1 826
STL share subscription finance costs	1 589	1 181
Amortisation of loan establishment fees	313	255
	7 971	6 502
(b) Other expenses		
Net loss on disposal of property, plant and equipment	2	-
Capital working expenses	122	18
	124	18

Note 4: Dividends

	November 2018 \$'000	November 2017 \$'000
(i) Dividends declared during the period: Nil	-	-
(ii) Dividends paid during the period: Nil	-	-
(iii) Dividends declared but not paid at the end of the period: (a) Nil	-	-
(b) Balance of the franking account at the end of the period	5 189	5 189
The franking account will be reduced subsequent to the period end as a result of the fully franked dividend declared per note 4(iii)(a)	-	-
	5 189	5 189



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 5: Significant items

(a) Seasonal factors related to the half-year period

The entity's primary activity of raw sugar production is a seasonal operation and is divided into two stages over the course of a financial year. The factories normally operate from June to November each year and all raw sugar, molasses and other by-product production occurs during this period (crushing season). Sugar and molasses are sold over the course of the full financial period. Generally from December to May, maintenance on the sugar mills and cane railway infrastructure is undertaken and no production occurs during this period (non-crushing season). Other services are delivered to the adjacent Sugar Australia Refinery for the full year and electricity is produced for the full year via the Cogeneration plant at Racecourse.

The above operations mean that many items in the statement of financial position will be significantly different at the November period end date compared to the year-end date. The income and expenses for the first period of the financial year will also be significantly different to the income and expenses for the second period of the financial year.

In relation to the statement of financial position, the main items affected by the above seasonal issues are further detailed in notes 5 (b), (c) and (d) below.

(b) Finished goods inventory

As explained in note 5(a) above, the entity's primary activity is a seasonal operation. As a result, higher levels of finished goods inventory of molasses and LGCs exist at the end of the half year period. The valuation of this inventory therefore has a significant impact on the profit or loss for the period and statement of financial position of the Group. The molasses and LGC inventory have been valued at the lower of cost and net realisable value in accordance with AASB 102. The impact of these inventory levels on the financial statements for the half-year ended 30 November 2018 is as follows:

	November 2018 \$'000	November 2017 \$'000
Finished goods inventory on hand at the beginning of the period (01/06/2018)		
- LGCs	328	2 108
- Molasses	408	2 375
	736	4 483
Finished goods inventory on hand at the end of the period (30/11/2018)		
- LGCs	1 440	2 876
- Molasses	2 280	6 009
	3 720	8 885
Changes in inventories of finished goods	2 984	4 402



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 5: Significant items (continued)

(c) Seasonal financing

As explained in note 5(a) above, the entity's primary activity is a seasonal operation. Sugar cane is supplied and part payments are made to growers during the crushing period (67% as at 30 November 2018), however a significant amount of the sugar revenue derived from this cane is not received until the second half of the year. As a result, the proportion of cane purchases to sugar sales is higher during the crushing period. To assist with the funding of cane purchases during the crushing period, the Company undertakes seasonal financing. The seasonal financing facilities are made up of short-term cash advances whereby the Group's sugar held on behalf of customers and other current assets is used as security. The loans are generally repaid as the sale proceeds are received from the customers. Seasonal financing draw-downs are required at various times throughout the year. The impact of seasonal financing on the statement of financial position as at the 30 November 2018 is as follows:

	November 2018 \$'000	November 2017 \$'000
Seasonal financing loans outstanding at the beginning of the period	5 000	5 000
Add: loans taken out during the period	114 981	29 000
Less: repayments of loans during the period	(49 744)	(34 000)
Seasonal financing loans outstanding at end of the period	70 237	-

(d) Sugar sales receivables/contract assets and Cane purchases payables

As explained in note 5(a) above, the entity's primary activity is a seasonal operation. The Group has significantly higher amounts of sugar sales and cane purchases outstanding at the end of the November half-year period, compared to the end of the May full year period, which is required to be recognised in the profit or loss statement. The Group sells sugar to a customer that is held on behalf of that customer until delivery later in the year. The sugar held on behalf of the customer is required to be recognised as revenue under a 'bill and hold arrangement'. Depending on the contract, part payments may be receivable prior to the delivery of the sugar to the customer. The revenue outstanding on these contracts is required to be recognised as a contract asset. The impact of the sugar sales receivables/contract assets and the cane purchases payables on the statement of financial position as at 30 November 2018 is as follows:

	November 2018 \$'000	November 2017 \$'000
Sugar sale receivables and contract assets at the beginning of the period		
- Sugar sale receivables	9 303	13 555
- Sugar sale contract assets	-	-
	9 303	13 555
Sugar sale receivables and contract assets at the end of the period		
- Sugar sale receivables	52 737	63 725
- Sugar sale contract assets	73 996	16 339
	126 733	80 064
Movement in sugar sale receivables and contract assets during the period	117 430	66 509



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**Notes to the financial statements
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Note 5: Significant Items (continued)

(d) Sugar sales receivables/contract assets and Cane purchases payables (continued)

	November 2018 \$'000	November 2017 \$'000
Cane purchases payables at the beginning of the period	22 432	37 110
Cane purchases payables at the end of the period	72 814	101 573
Movement in cane purchases payables during the period.....	50 382	64 463
Net movement in outstanding sugar sales / cane purchases accruals during the period	67 048	2 046

(e) Property, plant and equipment – acquisitions and commitments

Major expenditure and commitments for property, plant and equipment during the half-year period were as follows:

- Racecourse Loco Shed Relocation – expenditure \$549,446; commitments \$1,185,484.
- Palms to Racecourse 2 Rail Connection – expenditure \$397,924; commitments \$1,609,420



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**Notes to the financial statements
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Note 6: Other liabilities (Non-current)

	November 2018 \$'000	November 2017 \$'000
Deferred grant proceeds	20 909	19 759
Deferred cane payment.....	18 455	9 433
	39 364	29 192

(a) Deferred cane payment

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, in accordance with an agreement with the bargaining agents for the sugar cane suppliers of the Company. The agreement is applicable for a two year period and, following the conclusion of legal disputes, applies to approximately 95% 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 4,480 685 tonnes. This equates to a total deferred cane payment of \$8,961,370 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.



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**Notes to the financial statements
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Note 7: Unsecured notes

(a) Selected-term unsecured notes

The unsecured notes are offered under a prospectus lodged with the Australian Securities and Investments Commission (ASIC). The unsecured notes are held by shareholders, employees and depositors of the former interest bearing deposit scheme which was in operation when the entity was a co-operative. The former interest bearing deposit scheme was suspended on 18th July 2008 and the Company no longer accepted deposits after that date. Withdrawals of funds and transfers to unsecured notes are the only operations undertaken in the interest bearing deposit scheme.

The unsecured notes are issued for terms of 7 days, 6 months, 12 months, 24 months or 5 years from the date of investment. Interest rates vary depending on the length of the investment and are revised periodically based on the comparable prevailing market interest rates at the time. Interest is calculated daily from the date of the investment until the maturity date and paid on 30 June and 31 December in arrears or on the maturity date, whichever date is first.

The unsecured notes are not guaranteed by any party or secured over any assets of the Company. In the event of the winding-up of the Company, the unsecured notes rank behind secured loans, but equally with unsecured creditors and in priority to shareholders.

		November 2018 \$'000	November 2017 \$'000
Opening balance at the beginning of the period.....		9 867	17 915
Add: issuances during the period		901	665
Add: interest capitalised during the period		195	345
Less: repayments during the period.....		(2 888)	(6 063)
Closing balance at the end of the period		8 075	12 862

Maturity dates	Average interest rate		
Within 7 days	2.50%	2 824	4 512
Less than 6 months.....	4.25%	2 529	1 142
6 months to 12 months.....	5.00%	1 274	4 490
12 months to 24 months.....	5.25%	58	139
2 years – 5 years	6.00%	1 390	2 579
		8 075	12 862



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**Notes to the financial statements
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Note 7: Unsecured notes (continued)

(b) Fixed-rate medium-term unsecured notes (bonds)

On 5 April 2013, the Company issued Notes with the aggregate face value of \$50 million due 5 April 2018. The notes were issued under a Subscription Agreement with FIIG Securities Limited and an Information Memorandum and Pricing Supplement to eligible investors under section 708(8) of the Corporations Act. The notes originally had a fixed term of 5 years and a fixed interest rate of 7.25% per annum. Interest on the notes was payable semi-annually in arrears on the 5 April and 5 October of each year.

The notes were rolled-over on 5 April 2018 and extended for a further one year period to 5 April 2019. The fixed interest rate increased to 7.75% for the extended period. Interest on the rolled-over notes is payable quarterly in arrears on 5 July 2018, 5 October 2018, 5 January 2019 and 5 April 2019.

The notes are not listed or quoted on any stock or securities exchange, but are able to be traded on the Austraclear clearing and settlement system between eligible investors. The notes are due to be redeemed in full on the maturity date. The notes are classified as a direct, senior, unsubordinated and unsecured debt obligation subject to a negative pledge condition. The notes are also subject to a financial covenant dealing with the total tangible assets of the group. In the event of the winding-up of the Company, the notes rank behind secured loans, but equally with unsecured creditors and in priority to shareholders.

	November 2018 \$'000	November 2017 \$'000
Opening balance at the beginning of the period.....	50 000	50 000
Issuances during the period	-	-
Repayments during the period.....	-	-
Closing balance at the end of the period.....	50 000	50 000
Less: Unamortised transaction costs on initial recognition ...	(86)	(100)
	49 914	49 900
Interest paid on notes during the period.....	1 938	1 813
Interest owing on notes at the end of the period	595	568
Maturity dates	Average interest rates	
5 April 2019	7.75%	50 000



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**Notes to the financial statements
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Note 8: Interest in Subsidiaries

(a) Information about Principal Subsidiaries

Set out below are the Group's subsidiaries at 30 November 2018. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. 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 Group		Proportion of Non-controlling Interests	
		At 30 Nov 2018	At 31 May 2018	At 30 Nov 2018	At 31 May 2018
Queensland Commodity Services Pty Ltd	Mackay, Australia	100%	100%	-	-
Mackay Commodity Trading Pty Ltd	Mackay, Australia	100%	100%	-	-

There was no change in the ownership interests in Queensland Commodity Services Pty Ltd and Mackay Commodity Trading Pty Ltd during the half year period.

Note 9: Deed of Cross Guarantee

The following entities are party to a Deed of Cross Guarantee under which each company guarantees the debts of the others:

Holding Entity: Mackay Sugar Limited

Group Entity: Queensland Commodity Services Pty Ltd

By entering into the Deed, Queensland Commodity Services Pty Ltd, a wholly-owned entity of Mackay Sugar Limited, has been relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgement of financial reports and directors' reports under ASIC Instrument 2016/785 issued by the Australian Securities and Investments Commission (ASIC).

The effect of the Deed is that the parent company guarantees to each creditor payment in full of any debt in the event of winding up the subsidiary under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the Company is wound up.

The above companies represent a 'Closed Group' for the purposes of the Class Order, as there are no other parties to the Deed of Cross Guarantee.



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**Notes to the financial statements
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Note 10: Issued capital

	November 2018 \$'000	November 2017 \$'000
212,879,330 (Nov 2018: 212,879,330) fully paid investment shares	16 498	16 498

a. Investment shares

	No. of shares	No. of shares
Opening balance at the beginning of the period.....	212 879 330	212 879 330
Shares issued during the period	-	-
Closing balance at the end of the period.....	212 879 330	212 879 330

199,999,991 Investment shares were issued on 22 July 2008 to eligible growers on the restructure of the entity from a co-operative to a Company.

6,926,742 Investment shares were issued on 4 June 2012 to Mossman Central Mill Company Ltd as part of the consideration for the purchase of the raw sugar milling assets and liabilities of Mossman Central Mill Company Ltd.

5,952,597 Investment shares were issued on 31 May 2013 following the conversion of B Class investment shares to Investment shares.

'Investment' shares participate in dividends as determined from time to time by the Directors and in a winding up or reduction of capital participate equally in the distribution of surplus assets of the Company. Investment shares are able to be traded between eligible shareholders of the Company. The shares are tradeable on a restricted market and are not listed on any stock exchange. Investment shares have no voting rights.

b. Voting shares

Voting shares were issued to grower members of the entity on 21 July 2008 on the restructure of the entity from a co-operative to a company and have no monetary value.

At the shareholders' meetings a shareholder with a voting share is entitled to cast one vote when a poll is called subject to a maximum of one vote per voting shareholder per assignment holder regardless of the number of investment shares held. Voting shares can only be held by active growers. A new voting share is allocated to new growers of the Company for no consideration, provided the grower is eligible under the constitution. A new grower is eligible if the farm is a minimum of 20 hectares and produces 1,500 tonnes of cane per season. Voting shares are unable to be transferred and are cancelled with no compensation when a shareholder ceases to be a grower supplying the Company.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 10: Issued capital (continued)

c. Capital risk management

Directors' control the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Board of Directors' effectively manages the Group's capital by assessing its financial risks and adjusting the capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, adjusting the amount of dividends paid to shareholders and issues of new shares. Currently, shares are issued under a restricted market arrangement.

The Group does not have a formal capital management strategy, with decisions on issues of capital management being made by the Board of Directors as required. These decisions are mainly based on the performance of the Group's investments and trading activities, and the presence of opportunities for purchases and sales of investments.

The Group does not have any externally imposed capital requirements, apart from those terms listed in note 12(c) in relation to the Group's covenant requirements under funding arrangements with banks and note 7(b) under the fixed-rate medium-term unsecured notes (bonds) documentation.

Details of what the Group manages as capital, including financial liabilities considered to be part of capital, are as follows:

	November 2018 \$'000	November 2017 \$'000
Total borrowings	229 170	168 850
STL share subscription funding	27 949	27 052
Less – cash and cash equivalents	(29 646)	(33 046)
Net debt	227 473	162 856
Total equity	176 306	241 273
Total capital	403 779	404 129



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**Notes to the financial statements
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Note 11: Contingent liabilities and contingent assets

	November 2018 \$'000	November 2017 \$'000
Contingent liabilities		
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Nil		
Contingent assets		
Estimates of the potential financial effect of contingent assets that will likely become receivable:		
Insurance claim on Marian Mill Boiler:		
On 24 May 2016, a furnace explosion event occurred within No.1 Boiler at Marian Mill, resulting in significant damage to the boiler. As a result of the incident the 2016 crush was extended by an additional 10.6 days. A business interruption claim has been lodged for loss of profit, payroll costs and increased energy costs arising from the incident. During the half year period the settlement amount was finalised and all remaining insurance proceeds were either received or accrued as revenue.		
	-	3 500
Total contingent assets	-	3 500



**Notes to the financial statements
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Note 12: Cash flow information

	November 2018 \$'000	November 2017 \$'000
(a) Net cash flow from/(used in) operating activities		
Reconciliation of cash flow from operations with profit for the period		
Profit for the period	(16 403)	46 481
Non-cash flow included in profit for the period:		
Share of equity accounted investments' net profit after dividends	(2 358)	(2 409)
Depreciation	7 894	8 124
Interest amortisation expenses.....	313	255
Net loss/(gain) on disposal of property, plant and equipment	1	(4)
Loss on revaluation of property, plant and equipment.....	51 000	-
Net gain on disposal of property held for sale	-	(214)
Gain on disposal of subsidiary.....	-	(50)
Doubtful debts expense	-	16
Impairment loss on receivables	1	5
Fair value adjustment on STL share subscription liability	476	134
Capitalised lease interest expenses	47	55
Movement in unrealised gain/loss on derivatives.....	(15 548)	(7 110)
Changes in assets and liabilities		
Increase in receivables	(52 097)	(47 864)
Decrease/(increase) in contract assets	(73 996)	(16 340)
Decrease/(increase) in other assets	(4 651)	(1 589)
Increase in inventories	(3 330)	(6 462)
Increase in payables	44 156	56 570
Increase/(decrease) in other liabilities	9 009	10 572
Increase in provisions	2 447	5 441
Cash flow from operating activities	(53 039)	45 611



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 12: Cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities

Half-year ended 30 November 2018

	Opening Balance 1-Jun-18 \$'000	Cash Flows \$'000	Non-Cash Changes		Closing Balance 30-Nov-18 \$'000
			Fair Value Changes \$'000	Capitalised Interest \$'000	
Bank loans	105 000	(5 000)	-	-	100 000
QSL seasonal facility	-	70 237	-	-	70 237
Fixed-rate medium-term unsecured notes (bonds)	50 000	-	-	-	50 000
Lease liability	1 072	(294)	-	46	824
Interest bearing deposits	241	(28)	-	-	213
Selected-term unsecured notes	9 867	(1 792)	-	-	8 075
STL share subscription liability	27 473	-	476	-	27 949
Total liabilities from financing activities	193 653	63 123	476	46	257 298

Half-year ended 30 November 2017

	Opening Balance 1-Jun-17 \$'000	Cash Flows \$'000	Non-Cash Changes		Closing Balance 30-Nov-17 \$'000
			Fair Value Changes \$'000	Capitalised Interest \$'000	
Bank loans	110 000	(5 000)	-	-	105 000
Fixed-rate medium-term unsecured notes (bonds)	50 000	-	-	-	50 000
Lease liability	1 260	(294)	-	55	1 021
Interest bearing deposits	272	(15)	-	-	257
Selected-term unsecured notes	17 915	(5 053)	-	-	12 862
STL share subscription liability	26 918	-	134	-	27 052
Total liabilities from financing activities	206 365	(10 362)	134	55	196 192



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 12: Cash flow information (continued)

(c) Credit standby arrangements and unused credit facilities with banks

	November 2018 \$'000	November 2017 \$'000
Credit facility	173 794	177 863
Amount utilised	104 833	109 833
Unused credit facility	68 961	68 030

These facilities are held with Rabo Australia Bank (Rabo) and National Australia Bank (NAB) in a joint lending arrangement. The facilities were due to expire on 2nd March 2019 and have been extended to 2nd March 2020 on similar terms and conditions.

The finance facilities provided by Rabo and NAB as at 30 November 2018 are summarised as follows:

	Total facilities \$000	Rabo facility \$000	NAB facility \$000
Term debt facility	100 000	50 000	50 000
Seasonal working capital facility	35 000	17 500	17 500
Margin call facility (USD\$25,000,000)	33 961	16 980	16 981
Letter of credit facility	4 833	-	4 833
Total of facilities available	173 794	84 480	89 314

(i) Term debt facility - Rabo

This is a \$50,000,000 variable interest rate term debt facility. This facility was fully utilised as at 30 November 2018. \$2,500,000 is repayable on the 31st May of each year.

(ii) Seasonal working capital facility - Rabo

This is a \$17,500,000 variable interest rate seasonal working capital facility for the purpose of covering short term cash flow requirements. At 30 November 2018, no amounts were currently utilised under this facility.

(iii) Margin call facility - Rabo

This is a USD\$12,500,000 (AUD\$16,980,235) variable interest rate margin call facility for the purpose of covering margin calls if required due to the Group's sugar pricing activities. At 30 November 2018, no amounts were currently utilised under this facility.

(iv) Term debt facility - NAB

This is a \$50,000,000 variable interest rate term debt facility. This facility was fully utilised as at 30 November 2018. \$2,500,000 is repayable on the 31st May of each year.

(v) Seasonal working capital facility - NAB

This is a \$17,500,000 variable interest rate seasonal working capital facility for the purpose of covering short term cash flow requirements. At 30 November 2018, no amounts were currently utilised under this facility.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 12: Cash flow information (continued)

(vi) Margin call facility – NAB

This is a USD\$12,500,000 (AUD\$16,980,235) variable interest rate margin call facility for the purpose of covering margin calls if required due to the Group's sugar pricing activities. At 30 November 2018, no amounts were currently utilised under this facility.

(vii) Letter of credit facility

This is a \$4,833,333 variable interest rate line of credit facility for the purpose of covering any bank guarantees or letters of credit required by the Company. This facility was fully utilised as at 30 November 2018.

Collateral provided

The security arrangements for credit facilities are:

The Rabo and NAB loans are secured by a first ranking registered security interest over all of the Company's, QCS's and MCT's assets, a first ranking real property mortgage over the Company's mill sites and a second ranking security interest over the Company's interest in the refining joint venture.

Covenant requirements

The Rabo and NAB financial covenants include: (i) total liabilities to be a maximum agreed percentage of total tangible assets; (ii) minimum requirements for net tangible assets (excluding hedging assets and liabilities); (iii) seasonal working capital facility being subject to minimum borrowing base requirements; and for 31 May (iv) senior debt service cover ratio (SDSCR) requirements.

For the financial period ended 30 November 2018, the following covenant requirements were not satisfied:

- (i) total liabilities to be a maximum agreed percentage of total tangible assets; and
- (ii) minimum requirements for net tangible assets (excluding hedging assets and liabilities)

This covenant breach was formally waived by the banks prior to the authorisation of these financial statements.

(d) Credit arrangements and unused credit facilities with other institutions

	November 2018 \$'000	November 2017 \$'000
Credit facility	70 237	-
Amount utilised	70 237	-
Unused credit facility	-	-

Queensland Sugar Limited (QSL) provided a seasonal financing facility totalling \$85,981,448. The loan advances were based on 85% of the value of sugar stocks subject to an agreement under a sale and buy back arrangement. The amount outstanding as at 30 November 2018 of \$70,237,396 is repayable over the period 1 December 2018 to 31 May 2019.



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 13: Events subsequent to reporting date

Extension of fixed-rate medium-term unsecured notes (bonds) and senior banking facilities

As stated in note 7(b) of these financial accounts, the Company has \$50 million in unsecured notes (bonds) which are due for redemption on 5 April 2019. The Company has commenced negotiations with the trustee for the Noteholders to facilitate a vote, by special resolution of Noteholders, to approve a further 12 month extension to the term, with the notes then becoming due for redemption on 5 April 2020. Any extension will likely be subject to a similar extension of the Company's senior banking facilities. The Company has secured support for the extension of its loan facilities with NAB and Rabobank (refer note 12(c) of these financial accounts).

Share subscription agreement

The Company entered into a share subscription agreement with Nordzucker AG on 8 February 2019. The agreement will, upon completion, result in the issuing of fully paid converting preference shares to Nordzucker AG that constitute a 70% controlling interest of all shares on issue for an amount of \$60 million. The converting shares confer all the rights of ordinary shares of the company and a right to a preferential dividend of \$33.3 million in priority to the payment of any dividend on ordinary shares. Upon payment of the preferential dividend, the shares convert into ordinary shares.

In addition, as part of the transaction, Nordzucker has agreed to provide a shareholder loan facility of up to \$60 million to the Company. The terms of the facility are still being finalised, but the intention of the parties is that the facility will be subordinated to the company's existing bank facilities, but will pay a comparable rate to current rates paid under those facilities.

There are a number of significant conditions precedent for the agreement to complete, including:

- Shareholders who are eligible to vote approving:
 - issue of subscription shares to Nordzucker (by more than 50% of voting shareholders)
 - a new constitution (by at least 75% of voting shareholders)
 - conversion of all shares to ordinary shares (by at least 75% of both voting shareholders and Investment shareholders)
- Consents and waivers from the Company's existing financiers on existing arrangements.
- Foreign Investment Review Board approval.
- The Company having ceased to own Mossman Mill.
- Growers agreeing to change back to CCS cane payment formula.
- Agreement with Company lenders on the terms and conditions of ongoing support.

The completion of the agreement will not occur unless the conditions precedent occur prior to 24 May 2019 unless otherwise agreed between the parties.

Upon completion of the agreement, the arrangement will result in an injection of cash of up to \$120 million into the business, with the \$60 million converting preference shares being reflected as equity instruments on issue and up to \$60 million as subordinated debt reflected as a non-current liability as it is drawn down.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 13: Events subsequent to reporting date (continued)

Derivative financial positions

Between the end of the financial period and the date of this report, 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 and commodity swap transactions, unrealised gains or losses on these derivatives fluctuate over time in line with changes to futures prices and exchange rates.

As at 30 November 2018, the financial accounts reported a net unrealised gain on sugar pricing derivatives of \$21,057,796. However as at 20 February 2019, in anticipation of the authorisation of these accounts, this amount would be calculated to be an unrealised gain of \$16,320,646 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 period end. The change is due to a 4-5% strengthening in the sugar price and a 3% strengthening in the AUD/USD exchange rate.

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 matter or circumstance has arisen in the interval between the end of the six month period and the date of this report, which has significantly affected, or may significantly affect the operation of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.



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**Notes to the financial statements
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Note 14: 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 directly 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 (except for the Commodity Trading division which is reviewed by the Mackay Sugar Limited Board of Directors) 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.



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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

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

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
- Other financial assets
- Interest bearing liabilities
- Other financial liabilities



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

(c) Information about reportable segments (continued)

Year ended 30 November 2018	Reportable segments				Total \$'000
	Raw Sugar Milling \$'000	Refined Sugar \$'000	Commodity Trading \$'000	Other Investments \$'000	
Revenue					
From external customers	34 793	78 712	197 602	1 451	312 558
Finance revenue from external customers.....	-	80	38	-	118
Inter-segment revenue.....	341 206	-	143 948	-	485 154
Total Segment revenue	375 999	78 792	341 588	1 451	797 830
Profit/(loss)					
Segment profit/(loss) before tax.....	(14 152)	-	(444)	1 320	(13 276)
Share of profit/(loss) of equity-accounted investees	-	5 798	-	50	5 848
Total segment profit/(loss) before tax.....	(14 152)	5 798	(444)	1 370	(7 428)
Other reportable items included in profit/(loss)					
Interest income	-	80	38	-	118
Interest expense	(376)	(3)	(1 196)	-	(1 575)
Depreciation and amortisation	(7 881)	(2 011)	-	(13)	(9 905)
Loss on revaluation - Property, plant & equipment	(51 000)	-	-	-	(51 000)
Income tax expense.....	-	(913)	-	-	(913)
Segment assets					
Derivative assets	8	-	22 862	-	22 870
Trade & other receivables.....	18 424	-	52 079	-	70 503
Other assets	267 453	-	75 716	34 152	377 321
Equity accounted investees	-	80 268	-	-	80 268
Total segment assets	285 885	80 268	150 657	34 152	550 962
Other reportable items included in assets					
Capital expenditure.....	3 432	1 406	-	-	4 838
Segment Liabilities					
Derivative liabilities	-	-	1 805	-	1 805
Trade & other payables	88 880	-	331	-	89 211
Other liabilities	56 206	-	70 447	-	126 653
Total segment liabilities	145 086	-	72 583	-	217 669



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**Notes to the financial statements
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Note 14: Segment reporting (continued)

(c) Information about reportable segments (continued)

Year ended 30 November 2017	Reportable segments				Total \$'000
	Raw Sugar Milling \$'000	Refined Sugar \$'000	Commodity Trading \$'000	Other Investments \$'000	
Revenue					
From external customers	38 693	88 788	189 996	1 352	318 829
Finance revenue from external customers.....	-	18	42	-	60
Inter-segment revenue.....	379 199	-	191 096	-	570 295
Total Segment revenue	417 892	88 806	381 134	1 352	889 184
Profit/(loss)					
Segment profit/(loss) before tax.....	46 980	-	1 503	1 390	49 873
Share of profit/(loss) of equity-accounted investees	-	5 809	-	-	5 809
Total segment profit/(loss) before tax.....	46 980	5 809	1 503	1 390	55 682
Other reportable items included in profit/(loss)					
Interest income	-	18	42	-	60
Interest expense	(412)	(5)	(114)	-	(531)
Depreciation and amortisation	(8 110)	(1 583)	-	(14)	(9 707)
Income tax expense.....	-	(994)	-	-	(994)
Segment assets					
Derivative assets	-	-	9 257	-	9 257
Trade & other receivables.....	18 402	-	63 213	-	81 615
Other assets	331 699	-	25 333	32 610	389 642
Equity accounted investees	-	111 289	-	25	111 314
Total segment assets	350 101	111 289	97 803	32 635	591 828
Other reportable items included in assets					
Capital expenditure.....	4 587	1 180	-	-	5 767
Segment Liabilities					
Derivative liabilities	5	-	2 801	-	2 806
Trade & other payables	119 081	-	271	-	119 352
Other liabilities	49 306	-	92	-	49 398
Total segment liabilities	168 392	-	3 164	-	171 556



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ABN 12 057 463 671

**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

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

	November 2018 \$'000	November 2017 \$'000
Revenue		
Total revenue for reportable segments	797 830	889 184
Revenue of equity-accounted investees	(78 792)	(88 806)
Unallocated amounts:		
- Finance Revenue	177	134
Elimination of inter-segment revenue	(336 455)	(374 507)
Consolidated revenue	382 760	426 005
Profit before tax		
Total profit before tax for reportable segments	(7 428)	55 682
Unallocated amounts:		
- Corporate expenses	(2 753)	(3 360)
- Finance costs	(6 399)	(5 976)
- Finance revenue	177	135
Consolidated profit before tax from continuing operations	(16 403)	46 481



Mackay Sugar Limited
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**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

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

	November 2018 \$'000	November 2017 \$'000
Assets		
Total assets for reportable segments.....	550 962	591 828
Unallocated amounts:		
- Cash and cash equivalents.....	28 759	29 765
- Other financial assets.....	311	414
Consolidated total assets	580 032	622 007
Liabilities		
Total liabilities for reportable segments	217 669	171 556
Unallocated amounts:		
- Interest bearing liabilities	158 108	167 828
- Other financial liabilities	27 949	27 052
Consolidated total liabilities	403 726	366 436

Other material items

Year ended 30 November 2018	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest income	118	97	215
Interest expense	(1 575)	(6 396)	(7 971)
Depreciation and amortization	(9 905)	2 011	(7 894)
Loss on revaluation of property, plant and equipment	(51 000)	-	(51 000)
Income tax expense	(913)	913	-
Capital expenditure	4 838	(1 406)	3 432



Mackay Sugar Limited
ABN 12 057 463 671

**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

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

Other material items

Year ended 30 November 2017

	Reportable segment totals	Adjustments	Consolidated totals
	\$'000	\$'000	\$'000
Interest income	60	116	176
Interest expense	(531)	(5 971)	(6 502)
Depreciation and amortisation	(9 707)	1 583	(8 124)
Income tax expense	(994)	994	-
Capital expenditure	5 767	(1 180)	4 587

(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:

	November 2018 \$'000	November 2017 \$'000
Raw sugar sales	197 569	189 896
Refined sugar sales	78 712	88 788
Electricity sales	7 688	12 443
Molasses sales	22 614	21 887
Sundry sales	191	94
Sundry services revenue	34	19
Rental revenue	325	289
Dividends received	1 113	1 047
Insurance claims	3 877	3 891
Other revenue	435	475
Finance revenue	118	60
Total revenue from external customers	312 676	318 889



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: 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 Mackay, 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.

	November 2018 \$'000	November 2017 \$'000
Revenue from external customers		
Australia	288 114	294 976
All foreign countries		
- New Zealand	24 562	23 913
- Singapore	-	-
	312 676	318 889
Profit before tax		
Australia	(9 736)	53 273
All foreign countries		
- New Zealand	2 308	2 409
- Singapore	-	-
	(7 428)	55 682
Non-current assets		
Australia	332 294	423 392
All foreign countries		
- New Zealand	35 228	32 516
- Singapore	3 125	4 228
	370 647	460 136

(g) Major customer

Revenues from one external customer of the Group's Commodity Trading segment represented approximately \$167,547,310 (2017: \$169,382,610) of the Group's total revenues.



Mackay Sugar Limited
ABN 12 057 463 671

**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

(h) Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers by segment:

Year ended 30 November 2018	Reportable segments				Total
	Raw Sugar	Refined	Commodity	Other	
	Milling \$'000	Sugar \$'000	Trading \$'000	Investments \$'000	
Type of goods or services					
Raw sugar sales	-	-	311 884	-	311 884
Electricity sales	12 194	-	-	-	12 194
Molasses sales and services	22 614	-	-	-	22 614
Sundry sales	179	-	-	-	179
Refinery services	245	-	-	-	245
Total revenue from contracts with customers .	35 232	-	311 884	-	347 116
Timing of revenue recognition					
Goods transferred at a point in time.....	2 768	-	-	-	2 768
Goods and services transferred over time	32 464	-	311 884	-	344 348
Total revenue from contracts with customers .	35 232	-	311 884	-	347 116
Reconciliation of revenue from contracts with customers to segment revenue					
Total segment revenue	375 999	78 792	341 588	1 451	797 830
Adjustments and eliminations:					
Non-contract revenue	(4 312)	-	(29 704)	(1 451)	(35 467)
Revenue of equity-accounted investees	-	(78 792)	-	-	(78 792)
Inter-segment revenue.....	(336 455)	-	-	-	(336 455)
Total revenue from contracts with customers .	35 232	-	311 884	-	347 116



Mackay Sugar Limited
ABN 12 057 463 671

**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 14: Segment reporting (continued)

(h) Revenue from contracts with customers (continued)

Year ended 30 November 2017	Reportable segments				Total
	Raw Sugar	Refined Sugar	Commodity	Other	
	Milling \$'000	Sugar \$'000	Trading \$'000	Investments \$'000	
Type of goods or services					
Raw sugar sales	-	-	360 479	-	360 479
Electricity sales	16 941	-	-	-	16 941
Molasses sales and services	21 887	-	-	-	21 887
Sundry sales	78	-	-	-	78
Refinery services	194	-	-	-	194
Total revenue from contracts with customers .	39 100	-	360 479	-	399 579
Timing of revenue recognition					
Goods transferred at a point in time.....	5 194	-	-	-	5 194
Goods and services transferred over time	33 906	-	360 479	-	394 385
Total revenue from contracts with customers .	39 100	-	360 479	-	399 579
Reconciliation of revenue from contracts with customers to segment revenue					
Total segment revenue	417 892	88 806	381 134	1 352	889 184
Adjustments and eliminations:					
Non-contract revenue	(4 285)	-	(20 655)	(1 352)	(26 292)
Revenue of equity-accounted investees	-	(88 806)	-	-	(88 806)
Inter-segment revenue.....	(374 507)	-	-	-	(374 507)
Total revenue from contracts with customers .	39 100	-	360 479	-	399 579



**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 15: Revaluation of Property, plant and equipment

The fair value of all property, plant and equipment classes is assessed each period 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 2018. As at 30 November 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 30 Nov 2018	Mackay assets	Mossman assets	Total assets
Current Value of assets	\$299 995 263	\$406 469	\$300 401 732
DCF Valuation – Fair Value	\$248 995 263	\$406 469	\$249 401 732
Revaluation Adjustment (Write-down)	\$51 000 000	Nil	\$51 000 000

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 30 November 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 period is as follows:

	Nov 2018 \$'000	May 2018 \$'000
Carrying amount of property, plant and equipment at period end prior to revaluation	300 402	307 786
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.....	(51 000)	-
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	<u>249 402</u>	<u>304 853</u>



Mackay Sugar Limited
ABN 12 057 463 671

**Notes to the financial statements
for the 6 months ended 30 November 2018**

Note 16: Income tax expense

No income tax is payable for the period as the Company's deferred tax assets, arising from timing differences and tax losses, exceeds the deferred tax liabilities and the current tax liability.

Note 17: Company Details

The registered office of the Company is:

Mackay Sugar Limited
ABN 12 057 463 671
Corporate office
Peak Downs Highway
Racecourse via Mackay
Queensland 4740
Australia

The principal places of business are:

Mackay Sugar Limited – Farleigh
Armstrong Street
Farleigh via Mackay
Queensland 4741
Australia

Mackay Sugar Limited – Marian
Anzac Avenue
Marian
Queensland 4753
Australia

Mackay Sugar Limited – Pleystowe
Eungella Road
Pleystowe via Mackay
Queensland 4741
Australia

Mackay Sugar Limited – Racecourse
Peak Downs Highway
Racecourse via Mackay
Queensland 4740
Australia

Mackay Sugar Limited – Mossman
Mill Street
Mossman
Queensland 4873
Australia

Queensland Commodity Services Pty Ltd - Brisbane
Level 5, 444 Queen Street
Brisbane
Queensland 4000
Australia



Mackay Sugar Limited
ABN 12 057 463 671

**Directors' Declaration
for the 6 months ended 30 November 2018**

Directors' declaration

In the opinion of the Directors of Mackay Sugar Limited:

1. The consolidated financial statements and notes for the 6 months ended 30 November 2018, as set out on pages 1-55 are in accordance with the Corporations Act 2001, and:
 - (a) Comply with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the Group's financial position as at 30 November 2018 and of its performance for the half-year ended on that date; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. At the date of this declaration, there are reasonable grounds to believe that the Company and the Group entities identified in note 9 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Instrument 2016/785.

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

MR Day
Director (Chairman)

PA Manning
Director (Deputy Chairman)

Dated this 1st day of March 2019



Mackay Sugar Limited

Directors' Report
Half-year ended 30 November 2018



Mackay Sugar Limited
ABN 12 057 463 671

Directors' Report

The Directors present their report, together with the consolidated financial statements, for the Group comprising of Mackay Sugar Limited (referred to hereafter as the 'Company' or 'parent entity') and its subsidiaries for the six months ended 30 November 2018, and the auditor's independent review report thereon.

The Company has complied with the requirements of the Corporations Act 2001 in the presentation of this report and the associated consolidated financial statements.

Directors

The names of the Directors of the Company who held office from 1 June 2018 to the date of this report are as follows:

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

Changes to the Board

The following changes to the Board of Directors occurred during the period:

Jeffrey Grech retired from the Board on 30 October 2018.
Anthony Bartolo was appointed to the Board on 30 October 2018.

Principal activities of the Group

Principal activities of the Group are:

- (a) 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;
- (b) to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and
- (c) 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 half-year period.



Review of operations

Crop

The 2018 season crop estimate for the Mackay region was 5.09M tonnes. This was reduced to 4.82M tonnes mid-season after assessing the impact of well below average rainfall. The final crop processed for the 2018 season was 4.67M tonnes (67t/ha) as dry conditions continued throughout the crushing season. This was down compared to last season's crop of 4.97M tonnes (74t/ha).

As usual with a dry season, the PRS for the Mackay region was higher at 14.33 compared to 13.43 for the 2017 season. Sugar produced was 653,740 tonnes IPS, up from 636,042 tonnes IPS from the previous season as a result of improved sugar recoveries and higher PRS.

At Mossman the coastal crop was lower than pre-season estimate as a result of dry conditions, averaging 76t/ha (2017 season: 77t/ha). The largely irrigated Tablelands supply averaged 112t/ha (2017 season: 112t/ha). Mossman Mill crushed a total of 819,231 tonnes of cane for the season and 290,827 tonnes was toll crushed at the Tablelands Mill. The overall crop of 1.11M tonnes was down slightly on last year's crop of 1.18M tonnes.

Average CCS for cane crushed at Mossman was 13.78 and for toll crushed cane 14.52. These were up 0.5 and 0.8 units respectively in comparison to the 2017 season, again due to the extended dry conditions through the season. Sugar production for the 2018 season was 111,657 tonnes IPS at Mossman and 42,756 tonnes IPS at Tableland totalling 154,413 tonnes, similar to the 2017 make of 156,162 tonnes IPS.

Operations

Harvesting and crushing commenced 29 May 2018 at Farleigh with all three Mackay mills operating by 6 June. The last cane for the season was crushed at Marian Mill on 9 November 2018.

Factory availability for the Mackay factories for the 2018 season increased by 2.3% to 82.6%. The most pleasing aspect was the improved performance of Marian mill, which saw factory availability increase by 10.1% on the 2017 season. The focus was on RRR (Rate, Reliability, and Recovery). The cogeneration output for the half year was 94GWh with high levels of availability. The smaller crop, operational balance between the 3 mills and lower fibre in cane meant that more coal purchases were required, negatively impacting cogeneration revenue and increasing costs.

Crushing operations at Mossman commenced on 5 June 2018. Unusually dry conditions prevailed throughout the season with only two days of crushing lost due to wet weather. The coastal season finished on 5 November 2018. Tableland operations commenced on 5 June 2018 and finished on 29 November 2018.

Commodity Trading and Pricing

The sugar production from all factories continues to be sold in both the domestic and export markets. In the 2018 season, the Group again elected to physically market the Miller Economic Interest portion of its export sugar via an agreement with one of the world's largest marketers of raw sugar, Alvean Sugar. The Group's export sugar is physically marketed by Queensland Sugar Ltd and Alvean, with the proceeds (net of costs) paid to the Group.

The pricing of the domestic sugar and the majority of the export sugar is managed within the Group. Various sugar price risk management tools are utilised which also allows for individual grower pricing through a sugar price pooling system. Although the majority of the season's sugar production is generally expected to be completed by the end of November each year, significant amounts of sugar are held in storage for subsequent delivery and sale in the second half of the financial year. As at the end of the reporting period pricing for all the sugar held in storage was not yet complete, therefore the average sugar price has not yet been finalised.



Operating result

It is important to note that in relation to the financial information reported below, comparative information for both the six month period ended 30 November 2017 and balances as at 31 May 2018 have been updated for changes in the accounting standards required by the application of 'AASB 15 Revenue from Contracts with Customers'. Refer to note 1(e) of the financial statements for further details in relation to these changes.

Sugar production for the 2018 season during the six month period ended 30 November 2018 was slightly higher than the sugar production during the equivalent six month period for the 2017 season. However, a decrease in the sugar price by approximately 10.7% for the period resulted in a significant decrease in sugar revenue for the period. Electricity revenue for the six month period ended 30 November 2018 was also considerably less than expected due to the combination of lower cane tonnages processed through the mills, lower fibre in the cane and lower factory energy efficiency.

Revenue from operating activities for the half-year ended 30 November 2018 decreased by \$43.2 million (10.2%) to \$382.8 million. Changes in inventories of finished goods decreased by \$1.4 million to \$3.0 million primarily due to lower molasses stocks on hand at 30 November 2018 compared to the same time in the previous year due to higher local demand. Cost of sales decreased from \$249.8 million to \$217.4 million. The \$32.5 million (13.0%) decrease was due to a decrease in cane payments to sugar cane suppliers as a result of a reduction in the cane tonnages supplied to the mills during the period and the lower sugar price. The net result is the gross profit for the half-year ended 30 November 2018 decreased by \$12.2 million (6.8%) on the previous period to \$168.4 million.

Profit for the half-year ended 30 November 2018 decreased by \$62.9 million to a loss of \$16.4 million compared to the profit for the half-year ended 30 November 2017 of \$46.5 million. The reported profit includes a revaluation write-down of the milling assets of \$51.0 million. Excluding this write-down, the profit for the Company for the half-year period ended 30 November 2018 would have been \$34.6 million.

Operating expenses decreased by \$0.7 million to \$70.9 million primarily due to lower cane tonnages processed through the mills and a shorter season length. Maintenance expenses increased from \$24.4 million to \$26.2 million due to additional maintenance work to ensure satisfactory operational efficiency. Administration expenses decreased from \$24.4 million to \$22.2 million. The \$2.2 million decrease in administration expenses was mainly due to decreases in consulting (recapitalisation project), staffing levels and employee provisions expense. Depreciation decreased by \$0.2 million to \$7.9 million due to a lower throughput for the season under the units of production method employed for the Company's milling assets.

During the period, a change occurred in the payment structure of the Sugar Australia sugar supply contract. The Sugar Australia prepayment arrangements were replaced with a new seasonal financing facility with QSL, resulting in additional short term debt owing at the end of the period. This will be repaid during the second half of the year as payments for sugar are received. The increase in finance costs of \$1.0 million, resulting from the new facility, is offset by increased returns from sugar sales due to these financing costs being previously included in the Sugar Australia contract.

Total equity as at 30 November 2018 was \$176.3 million. This is a \$28.7 million decrease in the equity as at 31 May 2018. The decrease was due to the loss of \$16.4 million and a decrease in reserves of \$12.3 million. The reserve movement consisted of the hedge reserve which decreased by \$13.8 million, the foreign currency translation reserve which increased by \$0.7 million, and the financial asset revaluation reserve which increased by \$0.8 million. The hedge reserve movement was due to movements in the position of the mark-to-market valuations of the sugar price, foreign currency, and interest rate hedging positions as at 30 November 2018. Other major movements in the statement of financial position are explained in note 5 of the Company's financial accounts for the half-year ended 30 November 2018.



Mackay Sugar Limited
ABN 12 057 463 671

Directors' Report

Operating result (continued)

Operating result for the full financial year ended 31 May 2019

The Group will incur a significant loss for the second half of the 2019 financial year. A loss is incurred in the second half of the year as the Company's crushing season occurs in the first half of the year and the majority of the income is earned during this period. Maintenance works and capital upgrades are the major activities undertaken during the second half of the financial year (refer to note 5 of the financial statements for the half year ended 30 November 2018 for more information in relation to the financial impact of seasonal factors).

Dividends paid or recommended

No dividends were paid or declared during the six month financial period ended 30 November 2018.

Changes in state of affairs

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

Going Concern

The financial position of the Company has deteriorated year on year in the half year results since the previous Directors' report.

Steps to recapitalise the Company have progressed to the stage where the Company and Nordzucker AG have signed a share subscription agreement on 8 February 2019. Nordzucker AG has agreed to inject up to \$120 million in Mackay Sugar, consisting of \$60 million equity and up to \$60 million in a subordinated debt facility, for a 70% controlling interest in the Group. The agreement has a number of material conditions and requires shareholder approval and changes to the Constitution including the approval of 75% of those shareholders who are eligible to vote. This creates some uncertainty as to whether a successful outcome will be achieved.

The Company has \$50 million in unsecured notes (bonds) which are due for redemption on 5 April 2019. The Company has commenced negotiations with the representative for the Noteholders to facilitate a vote, by special resolution of Noteholders, to approve a further 12 month extension to the term, with the notes then becoming due for redemption on 5 April 2020. Any extension will likely be subject to a similar extension of the Company's senior banking facilities. No matters have been brought to the attention of the Company that renewal will not be forthcoming on acceptable terms.

With the above matters not concluded at the date of this report this creates material uncertainty over future cash flows and acts to cast a level of doubt about the Company's ability to continue as a going concern.

The Company has been in discussions with NAB and Rabobank regarding its loan facilities that expire 2 March 2019. The Company sought to extend these facilities and at the same time restructure those facilities to cover funding for immediate capital expenditure to improve operational and financial performance. At the date of this report the process to finalise an agreement and documentation with banks for the extension of these facilities to 2 March 2020 had been completed on similar terms and conditions.

The Directors after making enquiries and based on negotiations to date in relation to those uncertainties referred to above, have a reasonable expectation the Company will be able to meet its debts as and when they become due and to continue operating for the foreseeable future.

For these reasons, the Directors continue to adopt the going concern basis for the preparation of the financial statements.



Mackay Sugar Limited
ABN 12 057 463 671

Directors' Report

Future developments

The Board continues to explore ideas and projects to advance the Company's core business through improvements in safety, milling rate, recovery and reliability.

After balance date events

On 8 February 2019 the Company executed a share subscription agreement with Nordzucker AG under which Nordzucker AG has agreed to subscribe for converting preference shares which will represent a 70% controlling interest in the share capital of Mackay Sugar Limited, subject to the approval of Mackay Sugar shareholders and a number of other conditions. The converting preference shares will convert to ordinary shares after the payment of a preferential dividend of \$33.3 million. The effect of paying the preferential dividend is the first \$10 million of dividends that may have been payable to non Nordzucker shareholders will now flow to Nordzucker. Also as a condition of the subscription agreement the sale of the Mossman milling assets is progressing.

In the opinion of directors, no other matters or circumstances have arisen in the interval between 30 November 2018 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 periods.

Proceedings on behalf of the Group

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

Indemnification of officers

The Group 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 Group, other than conduct involving a wilful breach of duty in relation to the Group.

Rounding of amounts

The Group 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 for the six months ended 30 November 2018, as required under section 307C of the Corporations Act 2001 is set out on page 6.

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

Dated this 1st day of March 2019

MR Day
Director (Chairman)

PA Manning
Director (Deputy Chairman)



Mackay Sugar Limited
ABN 12 057 463 671

Auditor's independence declaration

Under section 307c of the Corporations Act 2001

To the Directors of Mackay Sugar Limited

I declare that, to the best of my knowledge and belief, during the six months ended 30 November 2018, there have been:

1. No contraventions of the auditor's independence requirements as set out in the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

Bennett Partners

Bennett Partners
Chartered Accountants

Darryl Camilleri

Darryl Camilleri
Partner

Dated: 1st March 2019
At: First Floor
122 Wood Street
Mackay Qld 4740

1 March 2019

Independent Auditor's Review Report

To the members of Mackay Sugar Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mackay Sugar Limited, which comprises the statement of financial position as at 30 November 2018, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditors Responsibility

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

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

Independence

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

Website: www.bennettpartners.com.au

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Bennett Partners Pty Ltd ATF The Bennett Partners Trust ABN 21 171 313 477

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mackay Sugar Limited is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

Emphasis of matter

Without qualification to the conclusion expressed above, attention is drawn to the following matters:

At balance date the company had not received a waiver for breaching a banking covenant which required a lower proportion of liabilities to assets and a minimum level of net tangible assets. The waiver has since been received.

We draw attention to the financial report which describes the circumstances resulting in the consolidated statement of financial position disclosing a significant deficiency in net current assets of \$121,857,000. Without the continued support of the company's financiers there is uncertainty whether the company will be able to continue as a going concern. 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 and do not include any adjustments relating to these amounts that might be necessary should the company not continue as a going concern. In our opinion, knowledge of this financial dependence affecting the company's ability to continue as a going concern is necessary for a proper understanding of the financial statements.

We also draw attention to the event subsequent to reporting date (note 13) that indicates the company has entered into a Share subscription agreement to recapitalise the company effectively based on a lower net asset value than disclosed in the statement of financial position.



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Darryl Camilleri - FCA

1 March 2019